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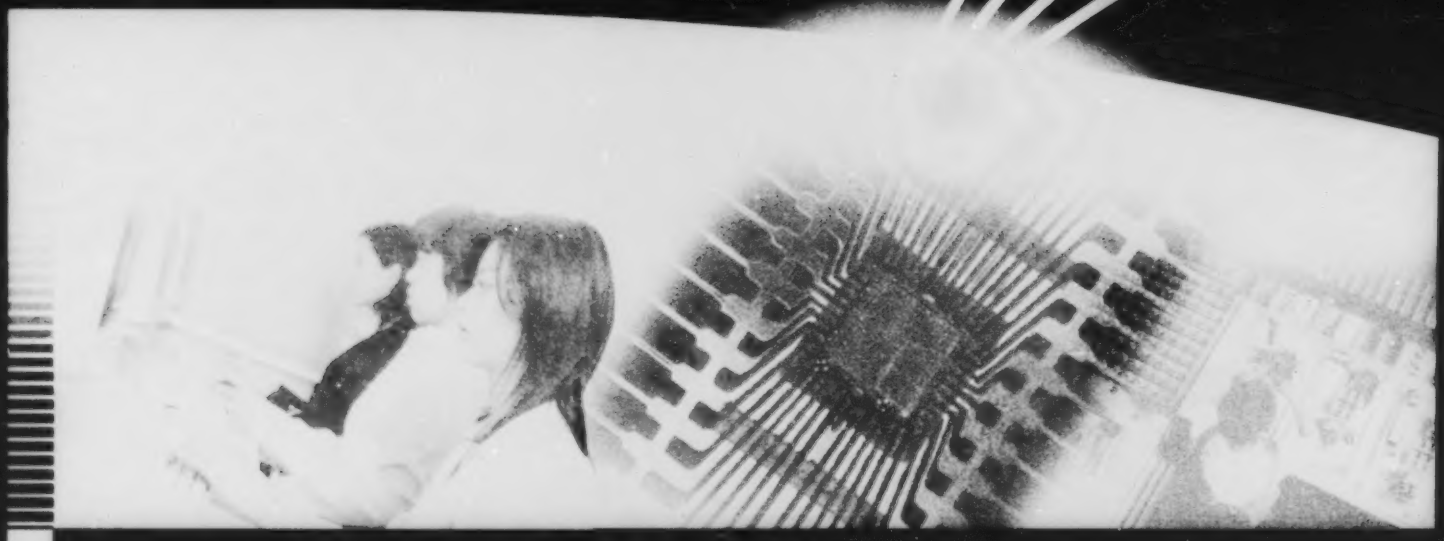

The Winning Formula at Work.

Investment Facilitation Techniques

Developed by the 22 Pilot Projects under the Canada Community Investment Plan

102-01836/

THE WINNING FORMULA AT WORK

INVESTMENT FACILITATION TECHNIQUES

DEVELOPED BY THE 22 PILOT PROJECTS UNDER THE CANADA COMMUNITY INVESTMENT PLAN

The Winning Formula at Work can be downloaded from the Canada Community Investment Plan Web site (**http://ccip.ic.gc.ca**). This site also contains *The Winning Formula*, access to Steps to Growth Capital, and other working tools and valuable information for those interested in investment facilitation services.

This publication can be made available in alternative formats upon request. Contact the Information Distribution Centre at the numbers listed below.

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A Message from the Minister

The Government of Canada has worked with communities large and small to foster the development of a culture that facilitates the growth of innovative firms. Through the Canada Community Investment Plan (CCIP), entrepreneurs in many sectors of economic activity have accessed both private investments of money and business savvy to build their companies.

This publication, a companion to *The Winning Formula*, is aimed at community leaders who want to profit from the best practices developed by the 22 CCIP pilot projects across Canada. It makes for impressive reading, but it is only part of the story. Community leaders can apply these lessons learned by building on the experience of other communities and bringing together the men and women involved in local economic development to work as a team in developing their community's social capital as well as its risk capital.

Making most effective use of these lessons learned demands that communities be prepared to adopt new ideas in investment facilitation and community economic development. It demands the patient building of a community that invests in itself to foster growth-oriented businesses, one at a time. Finally, it demands that communities be prepared not only to learn to apply those practices that worked but also to learn from those that didn't.

The best practices outlined in this publication tell only one part of the story. The full story has yet to be written. The next chapters will be contributed by those communities that adapt to their own situations the approaches identified by the pilot projects. I am convinced that these techniques and the results they have achieved can be reproduced in many communities across Canada. Communities that launch their own investment facilitation services should see their most innovative small businesses grow and gain vitality.

If you have a role to play in this exciting story, I encourage you to step forward.

Brian Tobin
Minister of Industry

CONTENTS

What *The Winning Formula at Work* Is About 1

MENTORING/COACHING ENTREPRENEURS 5

Venture Business Panel (Victoria, B.C., Fredericton, N.B.) 5
Helping SMEs determine their financing requirements and coaching them on how to qualify for such financing

Peer 2 Peer Groups (Kitchener-Waterloo, Ont.) 13
Allowing entrepreneurs to help each other by developing an active network of mentors

Virtual Business Accelerator (Niagara, Ont.) 19
Addressing investor-readiness gaps by offering business mentoring to firms not yet investor-ready

Commercializing Research (Halifax, N.S.) 27
Establishing local companies to reap the economic benefits from breakthroughs in university studies

"Formula One" for High-Tech Firms (Okanagan, B.C.) 33
Broadening the funding base by attracting risk capital, joint ventures and licensing agreements from investors and corporations

Workshop Coaching for Entrepreneurs (Canmore, Alta., Shawinigan, Que., and others) 41
Discussing funding alternatives

Coaching Entrepreneurs and Angels Together (Kitchener-Waterloo, Ont.) 47
Facilitating investor-readiness of emerging firms to attract access to early-stage capital

MATCHING ENTREPRENEURS WITH ANGELS 55

Investor Forums (London, Ont., Mount Pearl, Nfld., Sherbrooke, Que., and others) 55
Introducing entrepreneurs to potential investors at formal events

Express Networks (Saint-Hyacinthe, Que.) 65
Bringing together all of the potential economic players on the same business project

Investors Identified for SMEs (Sherbrooke, Que.) 71
Introducing entrepreneurs to local sources of venture capital and their requirements

Investment Fairs (Saint-Hyacinthe, Que.) 77
Giving SMEs in search of financing the opportunity for one-on-one meetings with angels, venture capital representatives and government representatives

FOSTERING ANGEL DEVELOPMENT 83

Bring Angels in Through the Back Door (Sarnia-Lambton, Ont.) 83
Recruiting angels in an indirect way

Table Talk Captivates Investors (Burlington, Ont.) 89
Fostering a network of potential investors within the community

"Angels in Waiting" Guide (Mount Pearl, Nfld.) 95
Recruiting angels through self-assessment of potential investors

Capital Connexion (Thérèse-De Blainville, Que.) 101
Doing missionary work in cyberspace by linking SMEs and investors through the Internet

Join the Team...Put *The Winning Formula* to Work 109

What The Winning Formula at Work Is About

The Winning Formula at Work explains the innovative methods that Canada Community Investment Plan (CCIP) projects have used to build a bridge between entrepreneurs and angel investors. It is meant to help those wanting to create a community-based investment facilitation service and to quickly identify appropriate strategies. It is a companion piece to *The Winning Formula*, a guide for facilitating investment in small business, which reveals how 22 pilot projects were started and operated. Both are available for downloading on the CCIP Web site (**http://ccip.ic.gc.ca**).

Some of our brightest, most promising small businesses continue to face difficulty obtaining risk capital to finance their growth. For small, local companies it is even more of a problem, especially when they need less than $1 million.

Under the CCIP, Industry Canada helped to fund 22 pilot projects across the country for five years to find solutions to this challenge. The techniques developed in these projects varied as much as did the size and economic base of the communities they served. Some may meet the needs of your community exactly, others may need adaptation — but all of them will get you thinking.

You will find techniques that have been used to identify private investors, or "angels" as they are called, among people who had little idea of their potential as investors. You will then learn about techniques for recruiting and coaching them.

You will also find techniques for making entrepreneurs investor-ready, as it was determined that a major part of the problem of finding financing is related to the non-investor-readiness of the entrepreneur, who did not understand the needs of investors and the reality of risk financing. These techniques prepared entrepreneurs to present their cases for investment to angels and other sources of financing in an appealing and business-like way.

All CCIP pilot projects have contributed to a change in the communities they serve. They have helped to foster an investment culture, shown new ways to develop the local economy, and proved that both growth-oriented business investment opportunities and investors can be found and brought together in communities across Canada.

All pilot projects have played a major role in developing the techniques that have led to the many millions of risk capital facilitated for small and medium-sized enterprises (SMEs) and to the thousands of jobs CCIP has created.

How the techniques are grouped

The 15 techniques are grouped under three headings: "Mentoring/Coaching Entrepreneurs," "Matching Entrepreneurs with Angels," and "Fostering Angel Development."

Techniques in "Mentoring/Coaching Entrepreneurs" show how entrepreneurs have been helped to become investor-ready. Techniques in "Matching Entrepreneurs with Angels" are concerned with finding the right angel investor or other source of financing for a particular company, and vice versa. Activities in "Fostering Angel Development" are concerned with identifying and developing new informal investors.

Now it's up to you

Communities are strongly encouraged to try to adapt these practices to fit their own particular circumstances. See what works for you! It is unlikely that all practices will work as well right across the country because of local conditions.

For each of the practices we have given a short explanation of the population size and economic base. Look for the techniques used in communities with an economic structure and community spirit similar to your own. Look for the techniques you can adapt.

The whole idea behind these stories is that there is no one single solution to fit all communities in the area of investment facilitation. Each community is different and has its own characteristics that need to be addressed.

The Winning Formula at Work is for you. Try the techniques that best meet the needs of your community. We hope they can be a source of inspiration and can help businesses to find some financing not otherwise accessible. Be bold! Experiment! The results are worth the effort. If you want to know more, just contact us:

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Venture Business Panel

Helping SMEs determine their financing requirements and coaching them on how to qualify for such financing

Where this happened Victoria, British Columbia

As one of its services to its members, VIATeC, the Vancouver Island Advanced Technology Centre, manages the CCIP project through which it addresses the capital needs of early-stage advanced technology companies. It helps them to determine their financing requirements and coaches them on how to qualify for appropriate financing.

Greater Victoria, with a population of 320 000, has enjoyed substantial growth in the advanced technology sector, as well as in tourism and filmmaking. It has two universities, a college and a labour pool of 16 000 knowledge-based workers.

Bill Cooke, Project Coordinator for Victoria's CCIP pilot project, originated this technique.

The Challenge

Preparing for Tough Questioning

One of the primary challenges Victoria CCIP faced was to prepare entrepreneurs for the tough questions they would face from potential investors and to give them a chance to practise and refine their pitch in a safe environment.

In addition, there was a perceived need to assist growth-oriented companies in developing successful businesses by providing experience-based options and advice in response to entrepreneur-proposed questions.

Also, it was deemed necessary to help entrepreneurs to consider strategies regarding key business development issues.

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THE SOLUTION

Facing a Panel of Experts

"The VBP provides a safe environment in which entrepreneurs can face the kind of scrutiny they will encounter from investors and can resolve outstanding issues."

All quotes by Bill Cooke

PANEL IS LOADED WITH TALENT

VIATeC has adopted an effective approach for meeting these challenges, using a Venture Business Panel (VBP) to help entrepreneurs in search of financing to prepare to meet investors.

The VBP helps companies not just by allowing them to do a practice session involving their investment pitch, but also by enabling them to benefit from the strategic advice of experts and to consider issues that will be critical to the long-term growth of their enterprise.

The VBP is composed of seven individuals with expertise in various areas of business, including:

- management,
- accounting,
- technology,
- law,
- marketing,
- banking, and
- investment/corporate finance.

The VBP is a significant time commitment, including a half-day per month for the meeting, several hours of preparation time and possibly an equal amount of follow-up time. Panellists are asked to donate time and advice for which they might normally charge fees. This consideration is offset somewhat by the fact that participation in the panel could generate new business opportunities for the volunteers.

PREPARING THE PRESENTERS PREVENTS TIME-WASTING SESSIONS

Entrepreneur presenters are asked to identify what they would like to get out of their session with the VBP. They are encouraged to submit to the panel one week before the meeting all of the information that the panel might need in order to address the subject matter and answer their questions. At a minimum, entrepreneurs are required to provide a strategic plan, business opportunity document or business plan.

"The answers generally fall into two categories. The entrepreneurs may be ready to go to an investor and are looking to practise their presentation and obtain feedback. Or they may have identified a few critical business issues that need to be resolved as they move forward."

The following structure and questions are provided to assist presenters in their preparation:

- What is the product/service you are proposing to offer?
- Who will your customers be? Why will they buy your product?
- Why do you think your presentation to this business panel will be successful?
- Add any additional information you feel would be beneficial in explaining your business plan, problems and opportunities, perhaps including such items as:
  - — What are the most critical issues facing you today that you'd like to discuss with the panel?
  - — How do/will you get your product/service to your customers?
  - — What skills does your management team have/need?
  - — What is your competitive advantage?
  - — What steps have you taken to legally protect your competitive advantage?
  - — What is your business plan?
  - — An executive summary of your business plan received in advance of the meeting would be helpful.
  - — A financial highlights summary can be submitted at your option.

"Initially, we had some bad experiences with companies that were not focussed enough and did not have a handle on the requirements of their business. The result was a free-wheeling discussion without a lot of value."

MEETINGS COVER A LOT OF TERRITORY

The panel meets once a month for three hours, during which time it hears from one company. Each core session lasts for approximately an hour and a half. The agenda usually allows 20 minutes for a presentation by the entrepreneur, 30 minutes to an hour for questions and answers, and the remaining time for a final wrap-up with feedback from each panel member.

"Often what a company thinks is its biggest business issue really isn't. Although a company may feel that a lack of capital is their most pressing problem, there may be other unresolved issues that are acting as obstacles to success."

Although the focus of the meeting is on helping companies to become investor-ready, other issues are also discussed. The expert advice provided during a VBP session leads companies through the strategic thinking that is necessary for sustained growth.

Generally, panel members agree to provide ongoing support to presenters, and presenters agree to report progress back to the panel. Repeat visits by a presenter are allowed as needed.

Many of the entrepreneurs who have taken part in a VBP have been surprised at the lessons they have learned.

SETTING UP VENTURE BUSINESS PANELS TAKES A CERTAIN COMMITMENT

Running a VBP requires the facilitator to commit approximately one day a month. Then, there is the initial work of setting up a permanent panel, which can run into five or seven days, considering that interviewing and selecting the proper panel members and deciding on the right format are crucial to the success of the undertaking. The selection of panel members can take even more time if the facilitator does not have an existing relationship with potential participants.

Beyond the time commitment, resources required for a VBP meeting are minimal, since the panel members donate their time both during the presentation and in one-on-one follow-ups. Extra resources include providing meeting facilities, light refreshments and copies of the entrepreneur's presentation. The company benefiting from the presentation is asked to provide any equipment needed, such as a laptop and projector, and is encouraged to have a back-up in case of technical problems.

VIATeC does not charge a participation fee for the entrepreneurs who present to the VBP.

THE RESULTS

HIGHLY POLISHED PRESENTATIONS

"The VBP allows VIATeC to forge and maintain relationships with leaders in the business community and contributes to VIATeC's success rate in helping entrepreneurs locate growth financing."

In allowing a dry-run presentation, the VBP affords the entrepreneur a valuable opportunity to polish his or her presentation style in non-threatening surroundings. This helps to ensure that the business doesn't lose an early opportunity for investment due to a lack of preparation.

The VBP helps to reinforce advice that VIATeC's staff members have provided. The fact that this advice is coming from a panel of diverse experts can really hammer a point home.

Participation in the VBP provides panellists with a networking opportunity — both with other panellists and with entrepreneurs. Panellists also benefit from hearing about investment opportunities at a very early stage. Some may choose to invest or offer services to the entrepreneurs appearing before the panel. In addition, the volunteers feel they are making a contribution to the local community — one that can have an impact on local business development.

In the nearly two years the VBP has existed, about 20 entrepreneurs have had a chance to receive feedback on their business plans.

LESSONS LEARNED

YOU CAN'T PLEASE EVERYONE

Despite the fact that most entrepreneurs leave a VBP meeting singing its praises, there are those who are not always ready to hear the advice being offered by the panellists, particularly if the panel identifies a problem that the company had not considered or offers a strategy that would take the company in a new, uncharted direction.

"When an entrepreneur is making a presentation to an angel, the angel is listening to the business opportunity, but is also evaluating the entrepreneur as an individual. Presenters must never lose sight of this."

Some entrepreneurs may feel that the time taken up in preparing for the VBP and waiting for a meeting to be scheduled could otherwise be better spent meeting potential investors. However, many entrepreneurs realize that the VBP actually saves time by avoiding wasted opportunities that result from meeting potential investors without a fully vetted pitch.

VARIATIONS BY OTHER COMMUNITIES

FREDERICTON'S RUBBER ROOM

The Greater Fredericton Economic Development Corporation (GFEDC), which handles Fredericton, New Brunswick's, CCIP pilot project, uses a similar technique it calls the "Rubber Room" to prepare entrepreneurs for meetings with potential investors.

Fredericton's strategy is to develop a database on venture capital institutions and angels, along with a screening service and a support network. GFEDC will also provide business plan counselling and financial mentoring programs by matching entrepreneurs with experienced members of a venture capital task force, and will build awareness by using local training sessions, workshops, computer-based courseware and videotapes.

STAFF DO THE WORK OF VOLUNTEERS

The process used for Fredericton's Rubber Room is similar to Victoria's Venture Business Panel, with the exception that volunteer panellists are not used. Instead, GFEDC staff act as the sounding board for entrepreneurs. This may be more appropriate for smaller communities where confidentiality is a concern or where a critical mass of expert volunteers is not available.

At the Rubber Room session, the entrepreneur is given guidelines and assistance to prepare an investment proposal. During the ensuing presentation, GFEDC staff take turns asking the kinds of questions a potential investor would ask. Afterwards, the staff provide the entrepreneur with constructive suggestions for improving his or her investment proposal and presentation.

The Rubber Room gives entrepreneurs an opportunity to fine-tune their presentation in a friendly and safe environment and to get the advice they need to polish their pitch and refine their business plan.

Highlights **Venture Business Panel**

- It is established whether staff or outside experts will form the panel.
- The panel contains expertise in all areas required.
- Panel members understand that no fees are involved.
- Panel members understand and are committed to the time required.
- Presenters identify what they would like to achieve by meeting the panel.
- Presenters are assisted in preparing their presentations.
- All resources required for the meeting are in place.

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Highlights — Venture Business Panel

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Presenters identify what they would like to achieve by meeting the panel.

Presenters are assisted in preparing their presentations.

All resources required for the meeting are in place.

Peer 2 Peer Groups

Allowing entrepreneurs to help each other by developing an active network of mentors

Where this happened Kitchener-Waterloo, Ontario

Communitech is the local CCIP pilot project. It assists technology-based entrepreneurs and emerging businesses within what Communitech refers to as the Canadian Technology Triangle (the Region of Waterloo and the cities of Kitchener, Waterloo, Cambridge and Guelph).

This triangle has a population of 500 000 and, apart from technology, has an economic base of universities, the automotive industry, tourism and retail.

Communitech's objective is to develop an active network of locally based mentors and private investors to target early-stage, growth-oriented firms in the technology sector. The strategy is to facilitate investor-readiness of existing firms for the purpose of attracting access to early-stage capital and to provide management skills support in the post-investment phase.

Paul Weber, Director of the Business Accelerator Program with Communitech, conducts Peer 2 Peer groups in the Kitchener-Waterloo area.

The Challenge

Getting to Know Each Other

One of the greatest wishes expressed by entrepreneurs in the area was the opportunity to discuss issues and problems of common interest.

"CEOs typically don't have anyone to bounce their ideas or concerns off or to learn from. They're the top of the company and there's really no one to mentor them."

All quotes by Paul Weber

There was also a strong sense that young entrepreneurs needed guidance in addressing the challenges of seeking start-up and early-stage financing and in overcoming the isolation of launching a new business.

In addition, it was felt that entrepreneurs needed an opportunity to network with each other and to share useful contacts.

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THE SOLUTION

MEETING ON LEVEL GROUND

Communitech currently runs two Peer 2 Peer groups, one for CEOs who have experienced at least a first round of financing, and another for entrepreneurs heading up early-stage companies.

MATCHING PEERS PROPERLY

The entrepreneurs who attend should be at the same stage of development (earlier stage companies should be separated from enterprises that have already received significant rounds of funding). This ensures that members not only receive value, but also provide value to the group.

"We hope that the results of anything we do will make a stronger company that is more attractive for investment."

As well, only true "peers" are invited to participate in the groups — CEOs or early-stage entrepreneurs. Intermediaries and other individuals wanting to sell services or products to the entrepreneurs are not allowed to attend group meetings. The only exception is for consultants who may be brought in for expert advice on particular issues from time to time. These restrictions ensure that the group meetings are a safe environment within which entrepreneurs can speak freely.

TO START A GROUP, FIND YOURSELF A CHAMPION

The first step in establishing a Peer 2 Peer group is to identify a champion — an individual who will provide leadership from within the group and help to build and maintain momentum. A representative of the facilitating organization should meet with the champion to identify other representatives from technology companies who will benefit from belonging to the group. The next step is to set a time for the first official meeting.

A second organizational meeting could be held with four or five potential members to discuss and finalize arrangements for future meetings: times, locations, topics of interest, format and the question of whether specific roles should be assigned to participants. Many of the groups decide to meet at each other's offices or homes on a rotating basis.

To build the Peer 2 Peer group, founding members should be encouraged to bring one or two peers to the next get-together.

FACILITATOR KICK-STARTS THE GROUP, THEN BACKS OFF

Communitech acts as a facilitator for these groups by sending out monthly e-mail invitations and reminders, tracking RSVPs and advising the host as to how many people will be participating. When requested to do so, Communitech will help the group to source experts to address specific issues.

Initially, the facilitating organization will play an active role in managing logistics, contact information and invitations. As the group matures, the facilitation role can increasingly be shared with group members.

DIFFERENT STROKES FOR DIFFERENT FOLKS

The CEO Peer 2 Peer group is more structured than the gathering of early-stage entrepreneurs. The senior group meets once a month for two hours from 7:30 p.m. to 9:30 p.m. Members discuss techniques, tools of the trade, industry education and common business challenges. Here is a sample agenda:

7:30 p.m. to 7:40 p.m. — Overview of firm by host company

7:40 p.m. to 8:00 p.m. — Member updates

8:00 p.m. to 9:00 p.m. — Discussion of selected topics

9:00 p.m. to 9:30 p.m. — Open discussion, questions, concerns.

"The CEOs really get a lot out of these meetings. By having a support group to turn to, they can get answers to questions that are common to their peers. They can say: 'Hey, listen, I'm trying to enter the U.S. market. Has anyone here done that?' They can find out valuable information about such things as the type and extent of government funding that's available."

Often the meetings are hosted by Communitech, but they may also be held at the facilities of one of the group members. The host member chairs the meeting and provides light refreshments.

The early-stage group, which Communitech refers to as "Entrepreneurs Anonymous," is less formal. They meet monthly in a local bar from 6:00 p.m. to 8:00 p.m. There is no set agenda for these gatherings. The focus is on networking, and the entrepreneurs find the group very worthwhile.

MINIMAL RESOURCES REQUIRED

The resources needed to facilitate Peer 2 Peer groups are relatively minor. Light refreshments may be provided to the CEO group by the facilitator in the early stages, but this expense can be assumed by hosting members once the group is established and has some momentum. Entrepreneurs Anonymous members pick up their own tabs at the end of their bar networking session.

Some human resources are needed to keep the group running smoothly and to perform the facilitation functions outlined above. Communitech does not charge Peer 2 Peer group members for their participation, but the groups are open only to members of Communitech, which has an annual membership fee.

THE RESULTS

GROWTH THROUGH SHARED EXPERIENCES

"What happens is that we end up with stronger management teams, better chances for financing, and opportunities for these management teams to speak with people who have been there and done that. It's important that they be given advice on who to deal with, but equally important is learning who NOT to get involved with."

The average attendance is from 8 to 12 members at the CEO group meetings and from 20 to 30 members at Entrepreneurs Anonymous. Members of these groups have formed relationships allowing individuals to easily contact one another when faced with specific problems. References for service providers and customers have been shared. Overall, the businesses are accelerating their growth through shared experiences.

LESSONS LEARNED

MAKE SURE THEY'RE REALLY PEERS

Keep membership homogeneous. Communitech found that having companies at various stages of development or individuals at various levels of management can prove problematic.

For everyone to feel comfortable, members have to believe that they are on an even footing. Too much time can be wasted at a meeting by trying to sort out the pecking order. And if the members don't feel at ease, they won't participate and won't be interested in attending future meetings.

PROPER LEADERSHIP AND STICKING TO THE RULES IS VITAL

Encourage leadership from within. Although Communitech facilitates the Peer 2 Peer groups, it has found that a critical success factor is having someone from within one of the groups who can help to drive things forward.

Getting the right "culture" within the group is important. Communitech has three simple rules:

- Respect other members.
- Keep all information in full confidence.
- Participate.

Highlights — **Peer 2 Peer Groups**

- Peer groups are identified by size, stage of development and sector of business.
- A champion is contacted to help form and maintain each group.
- An organizational meeting is held by each group to discuss future meeting place, time and process.
- Administrative and meeting resources are put in place.

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Administrative and meeting resources are put in place.

Virtual Business Accelerator

Addressing investor-readiness gaps by offering business mentoring to firms not yet investor-ready

Where this happened — **Niagara, Ontario**

The Niagara Enterprise Agency (NEA) manages the Niagara Canada Community Investment Plan (NCCIP) for the region, which comprises 12 municipalities. It is located between the southwestern shore of Lake Ontario and the northeastern shore of Lake Erie.

This region has a population of 400 000 and an economic base of tourism, agri-food/agri-business, wine making, high-tech, manufacturing, call/contact centres, filmmaking and publishing.

The NCCIP process involves a strong referral network for potential deal-flow, internal due diligence conducted on all opportunities to identify potential investor issues and to deal with them before presentation, and a keen understanding of, and working relationship with, diverse financial sources.

The experience here has been that growth SMEs need more than just access to risk capital, primarily provided through CCIP. They need to be better prepared to access that capital, and this process requires an early identification and resolution of the gaps in investor-readiness.

This technique is based on the experience of the NEA as reported by CEO Glenn Stansfield.

THE CHALLENGE

You Can't Have One Without the Other

During its first year of operation, the NCCIP project confirmed that high-growth SMEs in the area were greatly in need of risk capital. But while they may have needed it, they weren't yet ready to go out and get it. A full 75 percent of SMEs that inquired about investment facilitation services were classified as not being investor-ready.

Virtual Business Accelerator

Addressing investor-readiness gaps by offering business mentoring to firms not yet investor-ready

Where this happened — Niagara, Ontario

The Niagara Enterprise Agency (NEA) manages the Niagara Canada Community Investment Plan (NCCIP) for the region, which comprises 12 municipalities. It is located between the southwestern shore of Lake Ontario and the northeastern shore of Lake Erie.

This region has a population of 400 000 and an economic base of tourism, agri-food/agri-business, wine making, high-tech, manufacturing, call/contact centres, filmmaking and publishing.

The NCCIP process involves a strong referral network for potential deal-flow, internal due diligence conducted on all opportunities to identify potential investor issues and to deal with them before presentation, and a keen understanding of, and working relationship with, diverse financial sources.

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So the challenge here was twofold:

- help high-growth firms to address gaps in investor-readiness before approaching investors; and
- eliminate or minimize the barriers to SME growth using critical resources in the area.

THE SOLUTION

The Birth of the Niagara Virtual Business Accelerator (NVBA)

"The NVBA was developed to help high-growth firms to address gaps in investor-readiness and to minimize barriers to growth."

All quotes by Glenn Stansfield

Clients are often referred to the NCCIP pilot project after having been turned down for funding by a financial institution. The project pre-screens its clients and assesses their particular needs. Clients are referred to the NVBA when non-financial barriers need to be addressed. NCCIP has played a key role in sending referrals to the NVBA. However, additional referrals may also come from lending institutions, business leaders, accounting and legal professionals or government and educational institutions.

Admitting a client to the NVBA begins with a needs assessment by business professionals. With the broadly defined needs of the referral in hand, the NVBA project manager will contact the client to:

- briefly describe the Business Accelerator and its services;
- request a mutually convenient meeting time and place;
- indicate whether additional team members will accompany the project manager; and
- based on needs assessed during this initial contact, determine the team members who should attend this meeting.

Essentially, the NVBA acts as a broker on behalf of the client to address the client's needs with the appropriate community service provider.

NEEDS ASSESSMENT DIVIDED INTO THREE SEGMENTS

The meeting with the prospective NVBA client is divided into three segments: introduction, identification and analysis, and concurrence.

The **introduction** segment is intended to assure the client that each team member is qualified in his or her area of expertise. This process includes convincing the client that the Business Accelerator team's role is to help the client solve his or her own problems.

"Once the client feels comfortable with the team's collective experience and expertise, the way is cleared for a more open and forthright discussion of the needs of the business."

The **identification and analysis** segment of the meeting is facilitated by the project manager and allows the group, including the client, to frankly discuss the company's main issues. The questions relative to these issues are kept open-ended, non-threatening and focussed on fact finding. The aim is to come up with an accurate assessment of the organization's needs.

Written information will normally be available to support the discovery exercise. During this part of the meeting, the group should be able to define and quantify potentially successful results to which the client can agree.

The **concurrence** segment summarizes the details of the meeting and allows the client to agree or disagree with them. Any item with which the client disagrees must be revisited and further discussed until an agreement is reached. At this point, a general discussion ensues and an understanding is reached concerning a fee structure.

DELIVERY OF SERVICES TAILORED TO BUSINESS NEEDS

Using the list of resources that the NVBA develops, the Core Marketing Group identifies the individual(s) and/or group(s) deemed most appropriate to deliver the services the client requires. A lump sum price for the supply of these services is then negotiated.

Based on sourcing the necessary services on a subcontract basis, the project manager prepares a proposal for the client in the form of an engagement letter. The proposal contains:

- a recap of the prospect's needs as determined at the meeting;
- a description of the services to be provided;
- the time of delivery of these services;
- benchmarks or milestones where applicable;
- a definition of success appropriate to this particular case;
- the proposed fees and their structure;
- all relevant terms and conditions of a typical engagement letter; and
- an acceptance clause.

The project manager then meets with the prospective client to review the proposal and to answer any questions. Once all questions have been discussed and resolved to the client's satisfaction, the project manager asks for engagement by having the prospect sign the acceptance clause at the end of the proposal letter.

OTHER FIRMS HAVE A STAKE IN THE CLIENT'S FUTURE

This approach provides a host of critical resources essential to the client's growth, including services focussed on:

- sales and marketing — product design, product positioning, pricing, distribution, promotion and identification of geographic markets;
- competitive intelligence;
- operations — engineering, performance, manufacturing equipment and facilities;
- human resources — recruiting, policies, salaries and wages;
- administration — strategic planning, leadership and controls;
- finance — fiscal structuring and use of funds;
- reporting — financial and non-financial;
- merger and acquisition activities — consolidation; and
- succession planning.

"The NVBA provides a holistic service approach to growth firms by brokering necessary services to community organizations."

A MODEL HAS EVOLVED

The NVBA has fine-tuned its service provider facilitation model to include three core levels. Level One includes a home base of services essential to building a reputation and achieving internal efficiencies. This level of service is provided by NEA staff and is led by the NVBA project manager.

"The factor determining which community partners will be brokered is driven entirely by the needs of the client. Required services which are beyond the areas of expertise of this core group are delivered to local companies through a network of expertise that has been identified within the region."

Level Two comprises the services of key industry players and local community leaders. These contacts are critical resources for the NVBA to draw upon in the mentoring and due diligence stages. They also generate many referrals.

Level Three consists of a widely based community collaboration, partnership and common vision to jointly assist entrepreneurs in reaching their potential. The NVBA relies on the enthusiastic cooperation of such community resources as Niagara College, Brock University and the Niagara Economic and Tourism Corporation. One appointed individual from each group acts as the main contact with the NVBA and serves on the Advisory Board. These participants coordinate the supply of services from their respective institutions.

RESOURCES: SHOW ME THE MONEY!

The NVBA's reputation for "delivering the goods" has put it in a position where it can charge fees to help offset the cost of its service.

Clients pay an assessment fee, which covers the cost of the team's time in conducting the evaluation and writing a report. There is also a service fee, which covers the cost of providing the services outlined in the assessment. The client pays the assessment fee up front but the service fee is paid over a specified period of time coincident with the time required to deliver the services.

The initial service fee payment is due at the time the engagement letter is executed. This first installment commits the client to support the project through to its conclusion and obligates the NVBA to ensure the project's successful completion. Where the NVBA has subcontracted services, it expects the subcontractors to accept payment under the same terms and conditions the NVBA has agreed to.

THE RESULTS

Four Firms Are on Their Way

During its first year of operation, the NVBA engaged 11 clients. It completed consultation services for four clients, while the remaining cases continue to progress. The successful implementation of growth strategies for these four firms is expected to produce a high return not only through economic prosperity but also in the creation of wealth throughout the area through the jobs created as the firms grow.

The NVBA has already gained a solid reputation as a facilitator capable of resolving pre-investment issues critical to making entrepreneurs investor-ready. It is known as a key identifier and coordinator of SMEs' needs and a solution provider for overcoming barriers to securing growth capital. The organization also provides ongoing mentoring and the monitoring of a company's growth performance prior to, during and after investment.

One client's products really caught fire

The NVBA proudly points to its success in assisting the firm of Newville Classic Candles. The company, through the use of NVBA services, closed a deal worth approximately $2 million, resulting in the creation of 158 new jobs in the Niagara area.

The NVBA approach minimizes duplication of services within the community. Instead of trying to fulfil all the needs of high-growth firms with in-house resources, the NEA recognizes the strengths and capabilities of other community organizations and works in partnership with them.

"In such cases of seeking financing, investor confidence would not have materialized without the involvement of the NVBA. Thus, it has proven to be a key asset to the CCIP process."

LESSONS LEARNED

IT'S A COMMUNITY EFFORT

The NVBA has come to believe that no organization within a community can create capacity on its own. Community collaboration through the brokering organization is fundamental to the level of success the model will experience.

Also, the NVBA's initial success underlines the fact that the needs of the client business must drive the services that are offered. It has determined that there will be an ongoing need to assist participating small businesses through their growth transition stages, even after the successful attainment of a growth strategy.

Highlights — **Virtual Business Accelerator**

- The potential client firm understands role of the Business Accelerator and agrees to any assessment fees.
- A preliminary needs analysis is conducted.
- Individuals/organizations are recruited to provide services.
- An introductory meeting satisfies the client regarding the service team's qualifications, and identifies and analyses main issues.
- Agreement is reached on services to be provided and fees to be charged.
- The client signs a proposal/engagement letter.

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COMMERCIALIZING RESEARCH

ESTABLISHING LOCAL COMPANIES TO REAP THE ECONOMIC BENEFITS FROM BREAKTHROUGHS IN UNIVERSITY STUDIES

Where this happened **Halifax, Nova Scotia**

The Greater Halifax Partnership (GHP) brings together the business community and the public sector to focus on growing the economy of Greater Halifax. The GHP was selected to administer one of the 22 CCIP pilot projects initiated by Industry Canada.

Greater Halifax encompasses some 200 communities and boasts a population of approximately 375 000. Its economic base is divided into four primary categories: oil and gas exploration and distribution; life sciences; transportation; and technology.

Steve Dempsey is Vice-President of the GHP, which oversees investment by more than 100 private sector companies as well as funding from the federal, provincial and municipal levels of government.

THE CHALLENGE

FINDING THE RIGHT FOCUS

"We tried to be all things to all people and we just didn't have the core competencies to do so. We eventually realized that we had to take a more focussed approach to things."

Quotes by Steve Dempsey

The GHP admits that their first attempt at fulfilling the CCIP mandate of finding innovative ways to bring equity financing to growth-oriented SMEs was far from successful because of its generalist thrust.

Steve credits the administrators of the CCIP pilot projects for encouraging the GHP to keep trying. He says they didn't want to hear the word "failure" and wouldn't entertain any plans to shut down the project.

Commercializing Research

Establishing local companies to reap the economic benefits from breakthroughs in university studies

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With this encouragement, the GHP decided that the three key watchwords that would lead to success were "focus," "leverage" and "discipline." It was vital to focus on the right business sector, to leverage available seed funding to attract development funding, then to have the discipline to stick with the project until it produced the desired results — a healthy return on investment.

INDEPENDENT STUDY PROVIDED THE FOCUS

Around the time that the GHP was trying to come up with the proper focus for a pilot project, the results of a KPMG study were released showing that Greater Halifax was the number one location in the world for doing business in the life sciences sector.

The real challenge was that although for decades Dalhousie University's Faculty of Medicine had been obtaining patents on various biotechnological breakthroughs, no local firms were set up to take advantage of an opportunity to obtain a licence on these patents. This meant that none of the economic benefits resulting from the patents would accrue to the local community.

THE SOLUTION

Setting Up Local Business Ventures

In response to the findings of the KPMG study, the GHP began negotiations with Dalhousie University's Faculty of Medicine. In July 1999, the two parties signed a Memorandum of Understanding (MOU) to develop the life sciences industry in the region. Funding for the project came jointly through CCIP, the GHP and the Medical School.

In announcing the signing of the MOU, the President and CEO of the GHP said there was tremendous untapped potential in Halifax's life sciences sector. He described the goal of the program as working with Dalhousie to investigate the commercial viability of the research projects being conducted at the Medical School, identifying those with business potential and helping bring those projects to commercialization.

The Dean of Dalhousie's Faculty of Medicine pointed out that there were more than 300 research projects under way at the time, many of which had the potential to become successful commercial ventures. The Dean added that historically there had been challenges in securing financing that fit with the highly specialized nature of the industry.

SETTING UP A BUSINESS DEVELOPMENT OFFICE

There were a number of hurdles that had to be cleared before the new alliance could enjoy any degree of success. First and foremost was the Medical School's reluctance to get directly involved in the business end of the project. This was solved by setting up a business development office within the university and contracting out the work.

"Their mandate was to create local companies that could develop some of the patents from Dalhousie; in this way the resultant benefits would remain in the Greater Halifax area — in other words they'd be keeping things in the family so to speak."

Neil Ritchie

The successful bidder was BioMed Management Inc., headed by a man whose extensive experience as a venture capitalist and hospital administrator gave him the needed insight into how to go about commercializing life sciences projects at Dalhousie.

FOUR COMPANIES FORMED

Working closely with Dalhousie's Technology Transfer Office, Steve and BioMed Management Inc. identified four projects that seemed suited to commercialization. This resulted in the formation of the following companies:

Delex Therapeutics Inc. — This firm is working on the development of a delivery system for analgesics via the body's pulmonary system.

Fusogenix Inc. — This company focusses on developing drug delivery using fusion proteins that contain a toxic agent. These proteins target cancer cells and fuse with them, releasing the toxic agent within the cancer cells.

NovaNeuron Inc. — This company researches and commercializes tools for neurodegenerative disease diagnostics and therapeutics.

OncoDynamics Inc. — This firm is working to improve cancer therapy by addressing problems of cells that have escaped radiation and chemotherapy treatment.

OTHER OBSTACLES CLEARED

Once the four projects for development had been selected, it was necessary to convince the scientists involved that their participation would not hinder their academic careers. Dalhousie policy allows faculty members to devote one day a week to outside consulting work.

"The scientists were assured that they would not have to devote more than 20 percent of their time to the project and that commercialization would allow them to buy new equipment and hire more people to help move their research forward."

Another obstacle was the traditional gulf between the business community and the academic world. A lack of understanding can lead to uncertainty and mistrust.

The solution to this was to hold a number of social events such as a "Biotech Breakfast," an "Investor Barbecue" and several other get-togethers where potential investors and scientists could meet and get to know each other better. Each of the gatherings featured a formal presentation session followed by informal socializing.

No single event worked better than others; they had a cumulative effect that forged strong links between the two groups.

TIME NOT RIGHT FOR ANGELS

It was felt that it would be premature to invite potential private investors to any of the functions. There is a credibility factor that has to be addressed before the smaller angel investor will feel comfortable about becoming involved.

"We felt we had to show that we could interest the institutional investor first. Our strategy was to win the confidence of the big guys and then approach the small investor. We've now started to concentrate on getting angel investors involved."

THE RESULTS

TIME FOR OPTIMISM

While the projects are still in their infancy, some very positive results have already been evidenced.

For instance, initial financing of $2.3 million came from three venture capital firms and follow-on financing approaching $7.5 million has also been raised.

In addition, private investment has stimulated funding from granting agencies like the Canadian Institutes of Health Research and the Nova Scotia Regional Partnership — to the tune of about $600 000.

"We're not tracking job creation. The jobs will flow if you get the investment."

As well, the companies have been able to take advantage of the scientific research and experimental development tax credit, and this has been reinvested in research.

More good news is that because the companies have been created, they have become eligible for funding from the Natural Sciences and Engineering Research Council of Canada and the Industrial Research Assistance Program.

FUTURE PLANS

While continuing to nurture the four prototype companies, the GHP/Dalhousie alliance hopes to create two new companies a year. In addition, an effort will be made to identify projects that could result in licensing deals with larger companies. It is hoped that these larger firms will see the merit in locating a subsidiary operation in the Greater Halifax area.

The venture's initial success has also helped provide a commercial focus for the development of a Health and Life Sciences Research Village. Dalhousie and the National Research Council Canada are looking at a collaborative approach to facilitate investment in the village.

LESSONS LEARNED

NEVER SAY DIE

"Our strategy was to understand both industry and investor interests and what their needs were, then do our best to meet them. So far, we've done pretty well."

The Greater Halifax Partnership has once again proven that if at first you don't succeed, you must keep on trying. When the targets weren't met for the GHP first venture into attracting investment, the GHP refocussed on the life sciences sector, formed an alliance with Dalhousie and leveraged investment funding for four companies that are proceeding at an optimistic pace.

Highlights — **Commercializing Research**

- University scientists are coached, and coaxed, into becoming entrepreneurs.
- The university undertakes its largest commercialization project ever...and receives the greatest return.
- A deliberate decision is made to develop local businesses so that the benefits will accrue to the community.
- Greater Halifax is shown to be the number one location for life sciences, so the focus is placed on this sector.
- Seed funding is leveraged to produce development funding from venture capital firms and government agencies.
- The Greater Halifax Partnership sticks with the project through all the challenges until it produces the desired result.

"Formula One" for High-Tech Firms

Broadening the funding base by attracting risk capital, joint ventures and licensing agreements from investors and corporations

Where this happened — **Okanagan, British Columbia**

VentureBC, the Okanagan Region CCIP pilot project, assists entrepreneurs with innovative technologies within the North Okanagan, Central Okanagan and Okanagan-Similkameen areas. The objective is to assist young companies and entrepreneurs in broadening their funding base by attracting risk capital, joint ventures and licensing agreements from sophisticated investors and corporations.

Qualifying opportunities are accepted on the basis of high growth potential, international marketability and, more importantly, an open-minded and cooperative entrepreneur.

This region has a population of 320 000 and an economic base of tourism, agriculture, forestry, high-tech, mixed basic manufacturing and a university.

This technique, including its "Formula One" racing theme, is the brainchild of Ray Strafehl, Executive Director of VentureBC.

The Challenge

"All opportunities start with an idea, and sometimes that's as far as they get before landing on my desk. Before dismissing these ideas, I believe their presenters should at least have the opportunity of briefly pitching them — before I do!"

All quotes by Ray Strafehl

A Good Start Means Attracting Interest

VentureBC has found that quite often entrepreneurs will cautiously come up with a rough prototype of some device they believe to be patentable. The CCIP philosophy in this situation is that promising new entrepreneurs deserve a chance to obtain the tools and one-on-one mentoring to develop their opportunity to the "traction" point — the point at which an enterprise is in a position to move forward.

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"To mix metaphors a little, you have to impart that sense of assurance to these entrepreneurs, who are well aware of the fact that they are the small fish in an ocean of big fish, by acting as their champion — with the backing of our sponsors."

At the same time, the entrepreneurs have to be made to understand the processes required to make an opportunity investor-ready, the challenges and obstacles they face, and the ways to deal with them.

The ultimate challenge is to provide these entrepreneurs with a qualified people network that can support and carry out the work needed at each step towards traction.

THE SOLUTION

GET THEM READY FOR THE BIG RACE

The Okanagan CCIP has developed a system for working with technology companies, some very early-stage, to help them become investor-ready and ultimately to obtain financing.

This system is based on the belief that all new ideas and products without business plans should be quickly reviewed and a determination made based on scalability, international market acceptance, novelty, growth potential, barriers to achieving success and resources needed to obtain traction.

If the idea or product meets this means test, the entrepreneur should be engaged on a non-committal basis in order to verify these initial findings by other means and with other resource people.

HOW TO PRACTISE DUE DILIGENCE

VentureBC has found that verifying a gut feeling about a potential opportunity is always a little time-consuming and can be difficult if a non-disclosure agreement has been signed with the entrepreneur. VentureBC suggests that the best places to start in the case of intellectual property are the Canadian and U.S. patent offices using one of the many database search engines dedicated to patents available on the Internet, such as **http://www.delphion.com**

This can be followed by general Internet searches on the idea or product.

"Experience usually answers the questions you can't find the answers to — allowing you to make a final determination of feasibility."

VentureBC advises that with the permission of the entrepreneur and non-disclosures in hand, the best feedback will come from people experienced in the area being researched. In many cases, these experts offer advice that can result in changes to the original idea or product to make it better or more attractive.

The final step is to evaluate the entrepreneur's background. He or she should be skilled in the area under consideration as well as honest, open-minded, friendly and a good listener — the opposites of these attributes are deal killers. Known associates or references should be contacted to verify first impressions of the entrepreneur and, if it all checks out, a formal agreement can be negotiated.

ASSEMBLING THE PIT CREW

VentureBC, carrying forward the Formula One analogy, advises that in order to be in the race for money, and ideally to win it, every project requires its own pit crew. The idea or product needs to be developed to the highest possible standard, it has to be protected and packaged properly, its competitors should be identified and the finish line (investors) targeted. A team effort will accomplish this far more easily and quickly than a single-handed initiative.

Depending on the idea or product, teams usually comprise a combination of the following:

- lawyer (non-disclosure agreement, contracts, structure);
- MBA student (short business plan);
- patent attorney;
- graphic arts student (artwork);
- tool and die maker (prototype development);
- machinist, mechanic, electrician;
- research and test lab personnel (verification);
- software programmers;
- marketing consultant; and
- National Research Council Canada, Okanagan Science and Technology Council, Economic Development Corporation.

WHERE THE RUBBER HITS THE ROAD

"Generally, a basic idea or product can be brought to the point of traction for under $10 000 if a team is assembled from the above list. Surprisingly, or perhaps not, most entrepreneurs do not have this small amount of seed money. Usually an investor can be found for this amount if the idea or product's potential is recognized."

In racing for the grand prize, the entrepreneur must perform the following laps:

- raise initial funding;
- apply for National Research Council Canada grants;
- create a prototype/develop the product to the stage of commercialization;
- obtain provisional patent protection, trademark or copyright;
- with non-disclosure waived, conduct initial test marketing;
- using test data, complete a market research evaluation;
- compile product identity, artwork, market findings and a business model into a short business plan;
- summarize information into a PowerPoint presentation; and
- identify and contact potential investors.

THE HOME STRETCH

It's a given that a community-sponsored facilitator has a much better chance of gaining the interest of an investor than does an entrepreneur. The facilitator understands what investors are looking for and comes across as being more neutral. The investor also recognizes that the facilitator has chosen the opportunity out of many.

When offering an opportunity, VentureBC checks its roster of individuals and organizations to determine which ones might understand or benefit the most. For instance, a new carpentry tool would most easily be understood by a contractor or developer and would most benefit a tool company as another product line. Each of these, then, is a potential investor.

The first investor contacts are made by telephone to determine interest quickly. If the prospects are new, they are given a brief description of VentureBC, followed by an explanation of how and why this opportunity was selected out of many and why it might be of interest to them.

"It's advisable to listen carefully to the investor's questions, as these are usually related to their 'hot' buttons when it comes to making a decision."

At this point, the potential investor will either finish the conversation or express further interest with questions. If interest is shown, the investor should be offered additional information by mail or, preferably, delivered in person. A follow-up call will be easier and more effective once a face has been put to a name.

THE CHECKERED FLAG

When an investor is won over, the facilitator's role must be to encourage compromise and fairness on behalf of both parties, thereby retaining a neutral image and respect all around. A lawyer can be used to draw up the contract and advise the respective entities, but if possible should be kept out of the negotiations.

Often, investors will want control over their investment. This is viable if the entrepreneur believes the investor can contribute substantially to the success of the business or agrees to license the technology to the investor, effectively giving up control.

Control can be given away while still protecting the entrepreneur with a "shotgun" clause for non-performance — or minimum licence fees while he or she is awaiting royalties.

THE RESULTS

Low-Cost Fuel Gives Great Mileage

VentureBC has found that the barebones idea or product development incubation model lends itself to more amenable entrepreneurs who really appreciate the help they get, and offers them a substantially greater learning experience.

This low-cost method of gaining opportunity for traction provides all participants with the greatest upside leverage and recognition.

A GOOD START CAN TAKE TIME

VentureBC has become involved with three entrepreneurs who were "spinning their wheels" for two to three years each. They all lacked money, some lacked personal skills, others credibility.

One year later:

- Entrepreneur One had a single product. VentureBC gave him ideas for two more. He received initial funding of $400 000, and $600 000 more in the spring of 2001. Patents have been filed on two products, while the third is a trade secret. Estimated revenue starting in 2002 is $100 million plus; estimated royalty revenue to the entrepreneur is $20 million plus.
- Entrepreneur Two is barely gaining traction because of stubbornness and an unwillingness to acquire independent third-party verification of technology.
- Entrepreneur Three is rapidly gaining traction and is on the brink of starting product manufacturing. Expected revenues for 2002 are $2 million, with a 500 percent profit margin.

LESSONS LEARNED

KEEPING AN OPEN MIND BRINGS HOME THE HARDWARE

"Instinct is the best guide in determining whether you can sell an idea or product to an investor. It should have the WOW factor: 'What a cool idea!' It has to have that sizzle."

VentureBC has compiled a list of milestones in the race for the trophy:

- Never dismiss an opportunity just because there is no business plan.
- The personality of the entrepreneur is very important.
- Find an investor's "hot buttons" and work your pitch around them.
- Remain fair and offer creative alternatives when the investor and the entrepreneur reach an impasse.

- Patent offices, the Internet and other sources are searched to establish idea originality.
- The entrepreneur's reputation is checked.
- A formal agreement is negotiated.
- A service provider team is recruited, and tailored to client needs and investor potential.
- The client is provided with mentoring for all stages from initial funding to investor presentation.

Workshop Coaching for Entrepreneurs

Discussing Funding Alternatives

Where this happened — Canmore, Alberta

The rationale behind the CCIP project, called the Canmore Ad-Venture Capital Foundation, is that because there is limited industrial potential in the community, the focus must be put on the potential for technology-based businesses. These include environmental technologies and software developers, environmentally responsible tourism, and other non-land-intensive business sectors.

The purpose of the Canmore Ad-Venture Capital Foundation (which has since amalgamated with the Canmore Economic Development Authority) is to help SMEs gain access to risk capital by providing training and assistance, and by identifying potential investors for them.

This technique was developed under the guidance of Ron Remple, Executive Director of the Canmore Economic Development Authority, which manages the CCIP project.

The Challenge

Who Do You Turn To?

Canmore has found that a key component of helping SMEs to access capital is to educate them regarding the various options. Many entrepreneurs feel that their only alternative is to approach either their family or a bank.

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"Of course, to obtain funding entrepreneurs must be fully prepared. They can't go to a potential investor with their business plans on the back of a cocktail napkin."

All quotes by Ron Remple

They don't understand that there are many other alternatives available to them, such as:

- alternate lenders (Community Futures Development Corporations, Alberta Opportunity Company and various government agencies such as Alberta Value-Added Agricultural Corp.);
- investment tax credits;
- Industrial Research Assistance Program;
- mezzanine financing (Business Development Bank of Canada); and
- equity, both private and public.

THE SOLUTION

PLAYING THE ANGLES

"We are putting considerable effort into gathering together local investors who are interested in investing funds in local businesses that offer a superior rate of return and strong growth potential."

The Canmore CCIP held a one-day symposium called "Angles on Angels: How to Find Money for Your Business," for entrepreneurs seeking private investors. The symposium was designed for small business owners and entrepreneurs looking for financing and/or equity investment of up to $1 million in their Bow Valley enterprises.

A total of 120 people attended the gathering, including 90 entrepreneurs and 30 trade-show participants and speakers.

The event covered the financing/investment possibilities from "love money" to bank debt, quasi-equity and "going public." Legal issues involved with attracting angels into a business venture were also covered.

TOP-NOTCH SPEAKERS WERE WELL PUBLICIZED

Speakers included Maury Parsons from the University of Calgary, a panel of local businesses that had obtained financing in various ways, representatives of the Business Development Bank of Canada, the Alberta Opportunity Company, Western Economic Diversification Canada (WD) and a securities firm.

The event was advertised through a brochure maildrop to all businesses in Canmore and newspaper and radio advertising for eight weeks prior to the event. There was also provincial advertising via *Venture* magazine, advertising in the WD newsletter and a mailing distributed to the Alberta Women's Enterprise. Notices were placed on Canmore's business development Web site, and several press releases were sent out.

THE RESULTS

SMEs Learned a Lot About Financing — Warts and All

The local entrepreneurs who participated in the event indicated that it was useful to them in their attempts to attract money to their businesses. They said they particularly learned from hearing stories of local businesspeople who had failed once or several times before succeeding. This taught the "new kids on the block" what to avoid and also encouraged them to keep on trying.

The event provided excellent exposure for the CCIP: it got the word around about what the CCIP was trying to do to help SMEs to raise venture capital.

Canmore Organized a Steps to Growth Capital Seminar

As a follow-up to its "Angles on Angels" symposium, Canmore CCIP organized a Steps to Growth Capital seminar that was attended by 12 entrepreneurs representing 10 companies.

The cost of the event was $200 per person, with discounts for two or more people from the same company. The seminar ran on Tuesday and Thursday evenings from 6:00 p.m. to 10:00 p.m. over a four-week period. It was advertised in a local newspaper for three weeks, in a local community information publication and through the Chamber of Commerce.

The full Steps to Growth Capital course was delivered. One week of classes was run as a workshop to allow discussions and to enable clients to bring in their business plans for a quick review.

Consultants, including an accountant, a financial planner and a training course developer, were hired to deliver parts of the seminar. CCIP's Ron Remple, a former banker, also contributed.

COURSE GOT RAVE REVIEWS

Participants were very satisfied. They commented that the course was an excellent learning tool and more than met their expectations and goals. They recommend it highly to anyone looking for investment capital or business knowledge.

Investors who viewed the material were impressed with the detail taught to the SMEs. This not only increased the chances of investors being willing to listen to the entrepreneurs, but also raised the value of the investment facilitation service in the eyes of potential investors.

LESSONS LEARNED

KEEP IT LOCAL

The Canmore CCIP found that having local businesspeople relate their stories on attracting financing and investment worked very well. This brought theory to a practical level. However, the organizers felt that having less content or spreading the content over a longer time frame might work better.

Also, a great deal of money was spent marketing the event. It was decided that fewer or less expensive ways to publicize the symposium might be worthwhile.

MORE TIME NEEDED FOR CHAT

The length of the sessions, at four hours, worked well, but participants felt that the format should allow more time for discussion — perhaps a 50/50 split with two hours of presentations and two hours of discussion.

"And it might be wise to allow presenters to send clients to a session at a discount rate. This would enhance what the speaker gets out of the seminar and provide additional value to clients."

It was felt that it might be better to have two different groups among course participants — new businesses that need more basic information and existing businesses that are looking for more in-depth information that focusses on building upon their existing operation.

VARIATIONS BY OTHER COMMUNITIES

SHAWINIGAN'S WORKSHOP FOR GROWING COMPANIES

Shawinigan, Quebec, CCIP held a one-day workshop called "Financial Challenges for Growing Companies." The target group for the event was owners and management personnel without formal training in finance.

The goals of the session were to give entrepreneurs the tools they needed to undertake an in-depth analysis of their financing needs, to demonstrate their growth potential and management capabilities, and to write a business plan that would elicit interest from investors.

The session was also geared as an introduction to a future Steps to Growth Capital workshop, which helps entrepreneurs become investor-ready. More information on Steps is available at **http://growth.ic.gc.ca**

Topics covered in this session included:

- methods of analysis and terminology used by potential investors in evaluating the financial state of a company;
- an examination of why and in what circumstances companies with growing sales may need an injection of capital; and
- the introduction of tools that can help to determine how much and what kind of financing a company needs.

Participants received a 124-page manual for future reference.

RESOURCES AND LOGISTICS

The organization of the event took about three weeks spread over five months. The first step was to choose a date, reserve a facility, identify possible participants and hire a facilitator. The second step, which began two months prior to the event, was to finalize logistics.

The cost of the workshop was $6000. Participants were charged $225 each, which proved to be a barrier for some entrepreneurs. The balance was shared by sponsors. Two of the sponsors gave presentations at the workshop.

SATISFACTION CALLS FOR REPETITION

A very high level of satisfaction among participants was registered. This, along with excellent media coverage, reflected positively on the Shawinigan CCIP and will help to better position them as developers of specific tools to encourage the growth of SMEs in the region.

WORKSHOPS WORK IN OTHER COMMUNITIES

Workshops for entrepreneurs have also been held in, among other places, North Bay and Sault Ste. Marie, Ontario; Swift Current, Saskatchewan; Medicine Hat, Alberta; and Wendake, Quebec.

Wendake broke new ground. It held a workshop on Aboriginal culture for investors to help overcome the barriers that exist in accessing financing for Aboriginal businesses.

Highlights — **Workshop Coaching**

- A date is decided on, a facility is booked, and a facilitator is hired.
- The event is well publicized, and done so cost-effectively.
- Top-notch speakers are recruited.
- Speakers include local entrepreneurs who have financing experience.
- Steps to Growth Capital is used as model.

Coaching Entrepreneurs and Angels Together

Facilitating investor-readiness of emerging firms to attract access to early-stage capital

Where this happened Kitchener-Waterloo, Ontario

Communitech, the CCIP pilot project in the Kitchener-Waterloo area (see Peer 2 Peer Groups , page 13), held a series of seminars on a variety of topics to facilitate investor-readiness of emerging firms.

Paul Weber, Director of the Business Accelerator Program with Communitech, reports on these training seminars.

THE CHALLENGE

Getting up to Speed Before Meeting

It was determined that training was needed to provide entrepreneurs with the information and knowledge they required to become investor-ready. In addition to learning the rudiments of preparing a business plan and making a presentation, the principals of SMEs were given an appreciation of the risks involved in investing in order for them to empathize with the potential angels who were willing to put money into their venture.

Communitech also felt that it would be beneficial to the entire process if potential angels were provided with the opportunity to learn more about private investing. The theory was that a savvy investor can contribute greatly to the success of an enterprise.

Once the entrepreneurs and the potential investors were brought up to speed on the subject matter specific to their involvement, it was decided that they should be brought together somehow in an effort to encourage networking.

"The two groups obviously needed to learn different skills, but once they had gone through their training sessions, it made sense to put them together so they could get to know each other and, ideally, set the groundwork for making a deal."

All quotes by Paul Weber

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THE SOLUTION

Seminars Show the Way

Communitech's solution was to hold a series of five weekly seminars of three hours each for entrepreneurs, a similar single session for angels, and a final one-night mock investor forum aimed at making both groups in their own way investor-ready.

Separate but together

Entrepreneurs were coached on presentation content and skills. Private investors received guidance on what to look for in an investment opportunity.

At the end of their training, the two groups were brought together and the entrepreneurs presented their case to the potential investors for consideration. Even though it was mock, the final investor forum exposed both entrepreneurs and angels to this type of exchange for the first time.

Academia lends assistance

Communitech arranged for two professors from Sir Wilfrid Laurier University to teach a six-week seminar series for entrepreneurs based on Industry Canada's Steps to Growth Capital program. The entrepreneurs were given a comprehensive overview of the issues they needed to consider in order to become investor-ready. They were coached through the development of an investment proposal and a presentation to potential investors.

"By the end of the course, each student was armed with a completed investment proposal and the experience required for a presentation to potential investors."

COURSE OFFERED A SMORGASBORD OF TOPICS

The course for entrepreneurs was intense and covered a number of subjects. In effect, the complete Steps to Growth Capital program was boiled down to just five sessions plus a practice run, and was organized as follows:

Week One	• Introductions, Objectives and Expectations • Climate Setting • Overview of the Financing Process • Getting to Know Us — Company Introductions • Planting Seeds — The Process of Incubation • Traits of Successful Business-Building CEOs • Introduction to Myers-Briggs Technology • Introduction to Problem-Solving Methodology
Week Two	• The Top 10 Things You Can Do to Build Your Business (and Your Valuation) • Personal Goal Setting — What Are We Doing, What Do You Want, and Why? • What Do Investors Want to Know? • How Much Do You Need (and What Will You Use It For?) • Review of Financing Options • Company Growth/Company Stages
Week Three	• Valuing Your Company • Three Points of Validation (Three Points of Valuation) • Your Sustainable Competitive Advantage • Building Your Executive Summary • The Presentation Format • Introducing Locus of Control

Week Four	• Adding a Partner • The Legals • The Financials (Facilitating the Due Diligence Process) • Your Board of Directors • Motivation and Incentives as You Grow (Items for Consideration) • How to Give a Presentation
Week Five	• Finalizing Your Executive Summary — Update • Negotiating the Deal/Exit Windows • Meeting the Investor • Leading — Managing Context • Adding Bench Strength • Recruiting and Retention Techniques

"STEPS" MODIFIED TO SUIT INDIVIDUAL NEEDS

Modules on all of the topics covered are available on the Steps to Growth Capital Web site (**http://growth.ic.gc.ca**). One of the keys to the success of Communitech's seminar series was the use of local professors to alter the course content to suit the requirements of the participating entrepreneurs.

INVESTOR FORUM PROVIDED CHANCE FOR ANGELS TO SHOPTALK

Near the end of the entrepreneur series, a three-hour forum for potential angels was held. Individuals considering becoming private investors or changing their pattern of private investment were guided through the relevant issues.

Topics covered included what to look for in an investment opportunity, how to assess their needs as investors and how to meet these needs.

"This was a great networking opportunity. Five angels from the workshop decided to form a $500 000 capital pool."

PUTTING IT ALL TOGETHER

Following the completion of both the entrepreneur series and the angel forum, an investment opportunity showcase was held for the graduates of both seminars. This was not only a good practice session for everyone but also provided the opportunity to consider future deals.

THE RESULTS

POSITIVE EXPOSURE PAYS OFF

This well-subscribed undertaking produced the results Communitech had set out to accomplish. SMEs "graduated" from the six-week series of seminars ready to negotiate with investors and with a better understanding of the whole investment process.

Potential angels progressed from having just the capital and the desire to invest in a venture to the point where they had a better understanding of what represents a good investment and which proposed deals to stay away from. An added bonus for the angels was that five of them networked so well at the forum that they decided to pool their resources.

And by bringing the entrepreneurs and angels together following their individual seminars, Communitech not only provided both parties with an opportunity to discuss deals but also gained positive exposure to a solid cross section of their stakeholder publics.

LESSONS LEARNED

THERE ARE CERTAIN DRAWBACKS

Participation in a six-week seminar series is a time commitment that some entrepreneurs — particularly those involved with high-growth companies in need of financing — might not be prepared to make.

The opportunity puts them in a Catch-22 situation: they need the training because their business is on the fast track but they can't spare the time to take the training — because their business is on the fast track!

Another problem for some of the smaller entrepreneurs is that the fees for attending the seminar might be a little too much for them to bear — another Catch-22 for cash-strapped and needy firms.

WHERE TO GO FROM HERE

"The second series focussed less on service providers and more on people who have actually been operationally involved — individuals who have been there and done that."

Communitech has found that many of the entrepreneurs who benefited from the Steps-based series of seminars were enthusiastic about taking more courses to help them as they reach the next level in their business.

Paul Weber says this was the basis of a decision to hold another series of workshops. This time, one professor designed the course and experts in various fields were brought in as guest speakers.

Investment at a higher level than the acquisition of interim financing was on the agenda. One guest lecturer was Tim Jackson, who founded Pickstream and raised $50 million in a year before selling off the company for $550 million and starting a venture capital fund.

There were also lectures on topics such as human resources recruitment, retention of employees, getting and keeping customers, and corporate governance.

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Picking up the tab

Communitech subsidizes a sizable amount of the cost of running the seminars through membership fees. However, the organization also likes to offset some of the expenses of bringing in high-powered lecturers by allowing non-members of Communitech to attend at a cost in the $600 to $800 range.

"Everyone has to pay one way or another to attend the lectures. We strongly believe from past experience that if you get something for free there's no value to it."

But this price tag can also be used as an incentive to become a member of Communitech, since members can attend the series of eight lectures for $200. For the smaller entrepreneur — with fewer than five full-time equivalent employees — the annual membership fee is $300, so it's cheaper to become a member than to attend the lectures as a non-member. Fees for membership are based on the number of employees and go up to $5000 a year.

Coaching can also be used in other communities

Most communities have used coaching approaches to develop their growth-oriented businesses. This can be done in any community, regardless of its size or economic condition. A case in point is the Whitehorse, Yukon, pilot project, which provided ongoing consultation services to help some of its clients become investor-ready.

Highlights Coaching Entrepreneurs and Angels

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Investor Forums

Introducing entrepreneurs to potential investors at formal events

Where this happened London, Ontario

The London Venture Group (LVG), managing the CCIP project, enjoyed great success introducing SMEs to potential investors at forums arranged for this purpose.

Each forum was sponsored by a prominent financial or legal firm. No admission fee was charged, but attendance was strictly controlled.

The forums were held in the late afternoon at a prominent downtown business club. The LVG wanted each session to be seen as a relaxing affair for the audience, so they used a cocktail party format for networking after the presentations. Other CCIP pilot projects find breakfast meetings work best.

London has a population of 310 000 and an economic base of mixed industry. It is home to the University of Western Ontario.

Jeff Kinsella was Executive Director of the LVG before becoming Manager of Business Growth Services with the Sarnia-Lambton CCIP pilot project.

The Challenge

Have We Been Introduced?

"It depends on your audience. If you don't get good results at one type of function, try the other."

Quotes by Jeff Kinsella

The challenge was to facilitate access to capital for growth-oriented SMEs. It was decided that the best way to do this was to create formal opportunities for exposure of investment proposals and for introductions between entrepreneurs and potential investors, which would in turn lead to relationships and deals.

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A second challenge was to increase awareness of the CCIP investment facilitation services among fast-growth firms requiring risk capital, investors and centres of influence in the community.

THE SOLUTION

Formal Forums Set the Stage

"Experience has shown that investor forums can be arranged to benefit a wide range of communities."

The solution settled upon by the London CCIP was to arrange investor forums. These events allowed a number of entrepreneurs from a variety of ventures to make short presentations to a roomful of potential investors.

Who to Invite

The first step in organizing a forum is to have an appropriate audience. The LVG had a standing invitation list of about 450 people. Before invitations went out, the group held a brainstorming session to identify potential angels who would have a specific interest in those making a presentation. About 50 to 75 people attended each event.

The standing list was made up of a mix of four different types of people:

- advisors (accountants, lawyers, consultants);
- financiers (lenders, venture capitalists, established investors);
- successful entrepreneurs; and
- centres of influence (politicians, prominent executives, etc.).

Advisors are important because they often represent potential investors who don't want their interest known. Several LVG presenters have been introduced to angels through these intermediaries. If the advisors become convinced that the forums work, they will refer other clients and will even occasionally invest themselves.

The LVG found that lenders are necessary because most of the financing is part debt and part equity. Especially for private investors, having the support of a banker early in the process often acts as a catalyst in moving the deal forward. Also, there were several cases where bankers had already turned down a deal, then changed their minds after seeing the amount of investor interest generated at a forum.

It was also found that it was important to have bankers attending the forums because their presence attracted other participants that might not have come otherwise.

Centres of influence give the event credibility and can offer all manner of support to future endeavours. The LVG would give local politicians a chance to speak briefly since this tended to build good will for their group.

WHO NOT TO INVITE

The LVG cautions anyone contemplating holding forums to target the invitation list effectively. For example, the group did not invite doctors, dentists or other non-business professionals unless one of the presenters was within their specialty. In the LVG's experience, the only time these people tend to invest is when they know the entrepreneur personally or when the technology relates specifically to their profession.

"Remember, the audience members are your customers. All your efforts should be focussed on providing conditions that make it easy and natural for them to begin building relationships with the presenters."

GETTING THINGS ROLLING

All the activities within the event should be structured to contribute to one of two goals: exposure or introductions. The LVG chose to divide their investor forums into two parts: the first half of the event was for formal presentations and the second half was for informal networking.

Three to five companies were featured at each forum. Each gave a short (10-minute), high-level and very structured presentation. The LVG applied a common format to all presentations because this made it easier for the investors to take in and retain the information.

"It is critical to have final versions of all slide shows at least 24 hours prior to the forum so that you can make sure everything runs properly."

Each presenter used a PowerPoint slide show, and all slides were projected from the LVG's laptop. This simplified the logistics for the event, reduced equipment-switching pauses (which kill audience attention) and decreased the chances of equipment incompatibility and other technological disasters (which kill credibility).

Presenters were tutored throughout the preparation of the slide shows, then they rehearsed individually with several experienced critics who provided feedback on content and style and made sure each presenter stayed within the time limit.

Finally, the presenters had one, or ideally two, group rehearsals so that each of them knew what the others would be saying and doing. This preview made everyone aware of the importance of visual impact and presentation quality, and usually resulted in a marked improvement in the overall level of professionalism.

On average, the LVG spent four to five hours with each presenter. The feedback from these SMEs — even those who didn't get any expressions of interest — was that the preparation was tremendously helpful to them. Not only did it build their confidence and presentation skills, but having to be so brief and highly structured helped them to crystallize their strategy in their own minds and gave them a deeper understanding of their own business.

Presentation format

The LVG's format is as follows:

Company	1 minute
Concept	30 seconds
Management Team	1–2 minutes
Opportunity	
Overview of Technology	2–3 minutes
Overview of Market	2–3 minutes
Overview of Potential	1 minute
Statement of Need	
Amount and Uses	1 minute
	10 minutes

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TIPS FOR A SUCCESSFUL FORUM

The LVG encouraged the presenters to have all their critical team members present, and coached them on how to network. They were told to bring lots of business cards and, on the appropriate occasion, product samples, but nothing else.

At the time of registration, audience members received a package containing a two-page investor summary for each presenter. The format for the summary is adapted from the business opportunities document presented in Denzil Doyle's book *Making Technology Happen.**

"Handing out a business plan at the forum is considered counterproductive because it eliminates an excellent opportunity for relationship building."

If a potential investor wanted more information, the presenter was advised to set up an appointment to deliver the information and answer any questions.

Another innovation that the LVG implemented with great success was to assign a "shepherd" to each presenter. These LVG volunteers were well acquainted with both the financing process and the audience members, and helped the presenters make the most of the networking opportunity. They made introductions to the right people, steered the conversation along the right lines and kept the presenter circulating.

The shepherds have two main functions: to make sure the presenters talk to the appropriate people and to help them escape from those individuals who can do them no good.

THE RESULTS COMPLETED DEALS SET THE SEAL

In the first seven investor forums held by London's CCIP, 24 SMEs presented their investment proposals, 20 of which received at least one expression of interest. Twelve of the entrepreneurs negotiated or completed deals following the forums.

*D.J. Doyle, *Making Technology Happen*, Silvan Communications, Ottawa, 1997.

LESSONS LEARNED

THE FORUM IS JUST THE FIRST STEP

It is not likely that a presentation by an SME to an investor forum will result in an investment. The forum is just one part in a process of matching entrepreneurs and investors. The most one can hope for is to provide positive exposure for the SME, which will arouse interest among the investors and facilitate introductions. If the chemistry is right, the introductions begin relationships, and relationships lead to deals.

HAVE REALISTIC EXPECTATIONS

Make sure the SMEs attending an investor forum have a firm understanding of what they can expect. Most entrepreneurs want to skip right from the presentation to the deal — as if they were sitting across the table from a banker. That normally doesn't happen with investors. Giving entrepreneurs an understanding of the time lines required for investor due diligence and negotiation is an important part of preparing the presenters.

KEEP IT SHORT AND SIMPLE

Less is more in presentations. Usually, the investors thought that the LVG's format didn't provide enough financial and marketing information, and the presenters thought it didn't impart enough technical information. That's OK!

"If you keep in mind that the objective of the presentation is to facilitate introductions and to build relationships, then it makes sense to leave lots for these people to talk about when they next meet."

A presentation does not need to answer every question to be effective. It needs to spark interest. The LVG tried presentations as long as 20 minutes, but the level of interest from the audience during the networking portion proved to be significantly lower.

SMEs MUST LEARN HOW TO PLAY IN THE BIG LEAGUES

The audiences like the venue of the investor forum, but the presenters generally don't like it at all. They claim to be uncomfortable in a setting they describe as "stuffy" and having "too many blue suits." The key, however, is that the event needs to make the investors feel comfortable, not the presenters.

As well, it is important that the SME principals learn to be comfortable in such a setting, because if they are successful in finding financing, they will be exposed to this type of atmosphere more and more often. They definitely will need to get used to it.

MAKE SURE NETWORKING IS EFFECTIVE

It's important to ensure that the post-presentation networking is productive. There is a natural tendency for people with a technical background to spend their time with others of a similar background. They get caught up in technical discussions because that is where they are comfortable.

"The point of networking is for the presenters to spend time with people who have a finance or management background. They need to step outside their comfort zone."

KEEP AN OPEN MIND

Don't be too quick to judge what works and what doesn't. Sometimes the immediate feedback of the audience or presenters is contradicted by the long-term results. London's CCIP found that some of the investor forums that seemed to go really well actually got poor results. Others that did not seem as well received turned out to be among the most successful.

VARIATIONS BY OTHER COMMUNITIES

Mount Pearl Held Three Investment Forums

The Mount Pearl, Newfoundland, CCIP, under the leadership of investment manager Rob Mallay, held investment forum breakfasts for entrepreneurs in Newfoundland. The format was restricted in each case to allowing one firm to present its business plan to a small gathering of private investors and intermediaries.

A LEAP FORWARD FOR THE PRESENTER

The first breakfast meeting featured a single entrepreneur, five potential investors and two intermediaries. The Mount Pearl CCIP learned a few lessons from this experience to help make subsequent forums more successful. For one thing, although 21 invitees had confirmed their attendance, only 7 showed up. One reason was that there had been no follow-up the day before to recheck those who had confirmed. This meant that the room was set up for 21 people and was not appropriately scaled for the number of participants.

Nevertheless, the presenter received two requests for the firm's business plan and eventually advanced the operation through internal cash flow.

GATHERING ATTRACTED INVESTMENT

Learning from the drawbacks of the first breakfast, the Mount Pearl CCIP conducted an attendance check the day before its next forum. The event was attended by five investors and five intermediaries, while seven investors and two intermediaries who found out at the last minute that they couldn't attend requested copies of the entrepreneur's investment profile.

Once again drawing on past experience, the size of the presentation room was scaled down and all participants liked the intimate, relaxed atmosphere.

As a result of the forum, the presenter secured capital a couple of months later.

BREAKFAST REVEALED PRESENTER INITIATIVE

Despite their best efforts, the Mount Pearl CCIP found that a number of the investors and intermediaries who expressed interest in the opportunity of the third breakfast had to be out of town on business. Not to be thwarted, the presenter took control and arranged a follow-up dinner meeting. Several of the investors that were invited to the breakfast were able to attend this dinner, and preliminary discussions with a potential investor resulted.

NEVER ASSUME...

When hosting investment forums, don't assume that because someone has confirmed attendance he or she will be there. Be sure to place a reminder call. That way, you can capture last-minute cancellations and make adjustments to room layout and other arrangements.

SMALL CAN BE BETTER

In a smaller gathering, the participants tend to feel more relaxed and there is more opportunity for discussion. This type of arrangement gives the entrepreneur a chance to talk to half a dozen potential investors. In turn, the investors can network among themselves and the CCIP profile in the community is enhanced.

Sherbrooke Investor Forum Included Guidebook

Nathalie Ouellet, Financing Advisor to the Sherbrooke, Quebec, CCIP, left nothing to chance when an investment forum cocktail reception was held at a local hotel.

Since six entrepreneurs were presenting — a larger number than most communities attempt at one time — there was a chance that the investors and intermediaries in attendance might lose track of which presenter had talked about which project. CCIP distributed binders with one-page summaries of each investment opportunity, which made things easier for all concerned. Each binder also contained a copy of a popular booklet entitled *Growth, It's Capital!* that was produced by the Sherbrooke CCIP and six companion Local Development Centres in the Eastern Townships.

The main lesson learned was that investment forums are popular among entrepreneurs and potential investors as an excellent way to network. The gathering also permitted the Sherbrooke CCIP to better position itself as an investment facilitation service.

At subsequent investment forums, investors who attend will be charged a fee, although the Sherbrooke CCIP was reluctant to charge the presenters anything.

Let's do it again

"After all, if they weren't hard up for money, they wouldn't be attending the forum in the first place."

Nathalie Ouellet

Investor Forums in Other Communities

Investor forums have also proved successful in Moncton, New Brunswick; Niagara, Ontario; and Victoria, British Columbia.

Highlights — Investor Forums

- The invitation list includes advisors, financiers, successful entrepreneurs and influencers.
- There is a follow-up on invitations.
- The forum includes formal presentations and informal networking.
- Three to five companies make 10-minute presentations.
- Presenters are tutored and rehearsed.
- A package on each presenter is prepared and distributed.
- A "shepherd" is appointed to each presenter.

Express Networks

Bringing together all of the potential economic players on the same business project

Where this happened Saint-Hyacinthe, Quebec

The Groupe d'aide aux industriels maskoutains, Saint-Hyacinthe's CCIP pilot project, aims to improve access to capital for SMEs with strong growth potential by helping them to better structure and present their investment proposals and business plans and by putting them in contact with potential sources of financial assistance.

With a population of 80 000, the Saint-Hyacinthe region is an agro-food centre where you'll also find traditional industries such as furniture, textiles, and metallic products.

Nathalie Laberge, Chief of Finance, and Geneviève Lussier, Project Coordinator of the CCIP project, implemented this technique in Saint-Hyacinthe.

The Challenge

Getting the Ducks in a Row

"The Express Networks originated from an interest demonstrated by various players to work together in order to process the files of those seeking investment."

All quotes by Geneviève Lussier

The challenge was to put entrepreneurs of fast-growth SMEs requiring financial assistance in contact with all of the area resources with an interest in their business segment, in order to help them access capital and grow their businesses.

Writing a full business plan is an important step that preceded the implementation of an Express Network.

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Writing a full business plan is an important step that preceded the implementation of an Express Network.

THE SOLUTION

ALL FOR ONE

"This practice has brought together people who were not necessarily used to sitting down at the same table. It has also created links between the stakeholders and our group, thereby lending a measure of credibility to our actions."

Express Networks are used to bring together a number of potential stakeholders to focus on the needs of a specific entrepreneur. Among the parties invited are venture capital fund managers, private investors (angels) and government organizations capable of providing financial assistance and other guidance.

The objective is to gather around the same table the largest possible number of stakeholders who might be interested in the project, and to present them with the SME's business plan. They can then discuss matters and ask the entrepreneur pertinent questions.

The goal is to interest the stakeholders in signing a financial agreement with the entrepreneur. The Express Network often serves as a springboard for further meetings.

A WIDE RANGE OF PARTICIPANTS

Saint-Hyacinthe CCIP maintains a list of potential stakeholders and picks from it those organizations and individuals it feels would be interested in a particular enterprise. The list includes:

- financial institutions
  - Business Development Bank of Canada
  - chartered banks
  - caisses populaires Desjardins
- federal government departments/agencies
  - National Research Council Canada
  - Canada Economic Development for Quebec Regions
- provincial government departments/agencies
  - Emploi-Québec
  - Investissement Québec
  - Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec
  - Ministère de l'Industrie et du Commerce
- venture capital funds (specializing in the type of SME being studied)
- private investors.

MOVING RIGHT ALONG...

"Because they get a chance to meet the entrepreneur and get a feel for the project, stakeholders who are still interested will give the entrepreneur a second hearing to further explore the possibility of reaching an agreement."

The Express Networks make it easier to bring together the various parties that could potentially be involved in a project. The main advantage of this is the ability to coordinate their actions for improved synergy.

Of course, few, if any, agreements are formulated on the spot with the Express Networks.

NOTHING BREEDS SUCCESS LIKE HARD WORK

The investment facilitator's most important resource in organizing Express Networks is time. Deciding which participants to invite, extending invitations, coordinating schedules to find an appropriate meeting time, and providing a venue can be very time-consuming.

Investors and entrepreneurs must also take time to prepare if they are to reap the benefits of Express Networks.

THE RESULTS

BENEFITS FOR EVERYONE

The SME invited to participate in an Express Network is able to:

- meet with all the stakeholders who might be interested in its file at the same time;
- immediately determine what combination of activities might best suit the SME's needs;
- break the ice for future meetings;
- get to know each stakeholder's requirements and procedures, and gauge how long it may take to reach an agreement;

- obtain a different perspective on the project, which might result in some adjustments; and
- save time and money.

For their part, the stakeholders enjoy the following advantages:

- gaining familiarity with the many aspects of the project;
- getting an opportunity to talk with the other stakeholders in order to determine the best possible course of joint action; and
- rubbing elbows with fellow stakeholders who don't always have an opportunity to get together in the same meeting room.

"As well, everyone involved gets to observe how the CCIP project can help entrepreneurs who are starting up or expanding their businesses."

LESSONS LEARNED

EXPRESS NETWORKS AREN'T FOR EVERYONE

Not all SMEs can benefit from the Express Network approach. In fact, it has been found that only about half the entrepreneurs seeking financing are suitable for this treatment.

A rule of thumb is that only businesses that can benefit from several types of financial support are invited to the Express Networks.

THERE ARE MANY POSITIVE SPINOFFS

The contacts and the many activities associated with the Express Networks create closer ties in the area. Cooperation is enhanced among players as well as between the players and the entrepreneurs.

Another major advantage is that the meetings help to increase the group's network of contacts. For example, if a private investor decides not to get involved in a project, he or she may want to refer it to another private investor interested in this industry sector.

The Groupe d'aide aux industriels maskoutins was inspired by the Express Networks framework and has used it as a model for their annual gathering during which interested parties meet in 20-minute time slots. (for more details, see Investment Fairs, page 77).

Highlights — Express Networks

- The financing needs of the entrepreneur are studied.
- A resource team is recruited from a maintained list of capital fund managers, angels and government organizations.
- The team composition is as large and diverse as possible.
- Future meetings between the entrepreneur and individual team members are encouraged.

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Investors Identified for SMEs

Introducing entrepreneurs to local sources of venture capital and their requirements

Where this happened Sherbrooke, Quebec

Seven Local Development Centres (LDCs) in the Eastern Townships of Quebec have banded together to foster economic growth in the area.

The population of the area served is 260 000. The economic base is manufacturing (plastic, rubber, automotive), tourism, wood/granite, pulp and paper, and the Université de Sherbrooke.

Nathalie Ouellet, CCIP Financing Advisor with the Greater Sherbrooke Economic Development Corporation, and her Eastern Townships CCIP colleague Martin Richard were responsible for the technique outlined below.

The Challenge

Venture Capital? What's That?

The Eastern Townships are enjoying a healthy surge in the number of SMEs starting up in their area. Many of these firms are experiencing the traditional "investment gap" between start-up funding and financial participation by a bank or other providers of capital. As with similar operations across Canada, their principals have been hearing more and more about the infusion of venture capital that energizes fast-growth firms until they are eligible for traditional funding.

A common problem in the area was that while they had heard about venture capital, few entrepreneurs knew what it was — let alone had the expertise to understand and accept this type of investment. When the LDCs within the Townships kept getting questions directed to them about venture capital, Nathalie Ouellet and Martin Richard decided to develop tools to increase understanding of what risk capital is and how to obtain it.

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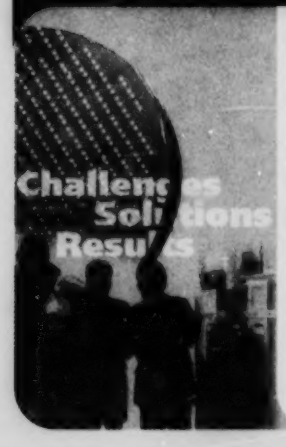

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THE SOLUTION

GROWTH, IT'S CAPITAL!

"Not so long ago, no regional firm specializing in this type of financing had been established in the Townships. In fact, it was only in the five years before we launched our publication that business individuals in the Townships had begun to enjoy access to the services of venture capital companies."

Quotes by Nathalie Ouellet

With their colleagues from the other LDCs feeding in questions (and helping with the answers) Nathalie and Martin co-authored a booklet called *Growth, It's Capital!* They produced 1000 copies of the publication, which was funded entirely by CCIP.

In the preamble, the authors spelled out the target audiences for the publication:

- businesses that must finance intangible assets (marketing costs, engineering, research and development);
- businesses that will experience strong growth, thus requiring a steady cash flow; and
- entrepreneurs willing to part with a portion of their share capital.

EVERYTHING YOU ALWAYS WANTED TO KNOW ABOUT VENTURE CAPITAL

For a relatively small publication, the booklet is packed with worthwhile information about venture capital. One of the first things it does is give the reader a brief but comprehensive overview of the subject matter in a small section entitled "What is venture capital?" The passage reads:

> In broad terms, venture capital designates the funds invested in a company demonstrating the potential to generate high returns despite an inherent risk of considerable losses. Venture capital is synonymous with investments which take the form of patient capital or capital stock financing. Operations related to venture capital often imply the use of many instruments in conjunction with one another. A single operation may include common shares, convertible preferred shares and secondary debt. Venture capital investors are companies or individuals who provide capital, specialized management skills, as well as experience, in exchange for a share in company stock. This share is usually proportional to the amount invested and the inherent risk involved. Future returns on invested capital are defined in proportion to your company's earnings.

TELL US MORE...

"We wanted to make sure that the young entrepreneur really understood what venture capital is all about. We even addressed such topics as why venture capital firms expect such a high yield on their investments. We pointed out that, on average, out of every 10 projects chosen by a venture capital firm, 2 companies will declare bankruptcy, 6 will provide average returns and 2 will see great success."

The booklet goes on to answer such questions as:

- What advantages are there in using venture capital?
- What is required of candidates for venture capital?
- What does a venture capital firm look for in a business plan?
- Here is my business plan. What's next?
- What happens when the deal is done?
- What is meant by an exit mechanism for the venture capital investor?
- What are financial angels and how are they an alternative to venture capital?
- What fate awaits the new venture capital recruits?

THE BOOKLET PULLS NO PUNCHES

One section cautions entrepreneurs against taking their proposal for procuring venture capital lightly. Statistics are quoted showing that 75 percent of all projects are rejected outright even before the business plan is read; a further 15 percent are eliminated after a first reading. Of the remaining 10 percent, some 6 to 7 percent are discarded upon closer scrutiny and negotiations.

The booklet goes on to list the main reasons a project is rejected:

1. The entrepreneur makes the wrong choice of venture capital firm.
2. The management structure is inadequate.
3. The business plan is unsatisfactory for one or more of the following reasons:
   - invalid or unjustified hypotheses;
   - financial forecast too optimistic;
   - poor market analysis and a scanty examination of the competition;
   - unprofessional document — badly organized;
   - too many or too few details; or
   - underestimation of necessary capital.

THE RESULTS

Booklet Has Multiple Uses

Growth, It's Capital! was in great demand as soon as its existence was heralded at a special press conference. But the authors weren't content to stop there. They came up with a variety of ways to make use of its valuable contents.

For instance, they devised a way of inserting the booklet into a small three-ring binder that contained additional material. When an SME looking for venture capital got to the point where it was time to select a funding group, the firm's principals were given copies of the binder, which not only contained the booklet but also individual profiles on more than 30 area venture capital funds interested in investing in businesses in the Eastern Townships.

In these profiles, each fund's investment policy is outlined under the following headings:

- mission statement,
- specialization,
- type of investment and financial assistance offered,
- business mentoring,
- assistance in drafting the project,
- participation in capital stock,
- exit mechanism,
- special programs,
- required documents,
- document analysis fee, and
- main evaluation criteria.

The SME is also given guidance as to eligibility:

- territory served,
- eligible sectors,
- legal status, and
- type of project sought.

Finally, the investment fund's general criteria are given:

- scope of investment and financing,
- terms of investment and financing plan,
- project cost, and
- required capital injection.

The result of this wealth of information is that the SME can select the five or so investment sources that give the best match, thus reducing the search effort. This information, combined with that given in Module 5: Identify Potential Investors, of Steps to Growth Capital (**http://growth.ic.gc.ca**), gives SMEs a powerful tool in their search for investment.

"And just recently, a business professor at the University of Sherbrooke asked for copies of the binder to use as the focal point for lessons on venture capital."

Martin Richard

When Sherbrooke hosted an investment forum where six entrepreneurs presented their business cases, the potential investors were given copies of the binder with individual profiles of the presenters so that they could keep track of who was offering what.

Local investment facilitation organizations can obtain a copy of *Growth, It's Capital!* by e-mailing Nathalie Ouellet at **nouellet@sders.com**

LESSONS LEARNED

TEAMWORK PAYS OFF

The primary lesson the LDCs learned was that if there is a definite need for some type of action and if everyone works together as a team, the results will be overwhelmingly positive.

They also found that having produced a publication of such high value to entrepreneurs and the investment community alike tremendously increased the credibility for the LDC concept and for CCIP in the eyes of all the stakeholders who have a vested interest in seeing a venture capital facilitation service succeed.

Highlights — **Investors Identified for SMEs**

- All community resources are recruited in preparing *Growth, It's Capital!*
- Venture capital is fully explained to inexperienced entrepreneurs.
- The usual valid reasons for rejection are explained.
- Potential sources of investment are identified and described.
- Steps to Growth Capital is used as source material.

Investment Fairs

Giving SMEs in search of financing the opportunity for one-on-one meetings with angels, venture capital representatives and government representatives

Where this happened Saint-Hyacinthe, Québec

The goal of the Groupe d'aide aux industriels maskoutains, the Saint-Hyacinthe CCIP pilot project (see Express Networks, page 65), is to improve access to capital for SMEs with high-growth potential. Among the services offered to achieve this, entrepreneurs are helped to better structure and present their investment proposals and submit them to various sources of capital.

This technique is reported by Chief of Finance Nathalie Laberge.

The Challenge

Go Where the Money Is

"Helping entrepreneurs write their business plans and financial statements is a crucial step that must be undertaken before any meetings with potential investors."

All quotes by Nathalie Laberge

The primary challenge is to put local SMEs in touch with representatives of venture capital funds and government programs, and private investors. However, putting potential investors and entrepreneurs in contact with each other must be organized and planned ahead of time.

Once the SMEs are investor-ready, the challenge is to find the right prospective partners to whom the entrepreneurs can make their pitch.

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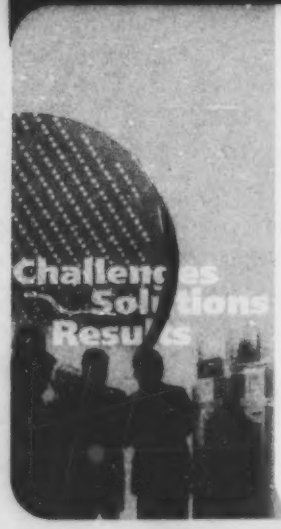

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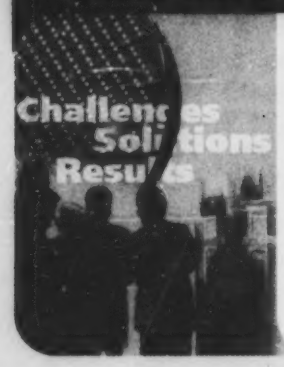

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THE SOLUTION

COME TO THE FAIR

Saint-Hyacinthe holds annual Investment Fairs at which SMEs in search of financing pre-register for a series of one-on-one meetings with representatives of venture capital funds and government programs, and with private investors.

"The purpose of these events is to help entrepreneurs and investors make contact and begin the process of building relationships that may lead to deals later on."

SMEs are given a listing of participating providers of capital, with their financing criteria, prior to the event. The SMEs complete a registration form on which they indicate their financing needs and which funds or individuals they would like to meet with (to a maximum of four or five). Entrepreneurs get a chance to explain to the investors the type of financing they are looking for and, in return, the potential investors explain their financing policies.

ACCOUNTANT LECTURED AT FIRST EVENT

Saint-Hyacinthe has held three Investment Fairs so far, and participation in these events has grown steadily over the years. Fewer than 30 individuals participated in the first one and more than 50 took part in the most recent.

The format of the events has also evolved. At the first fair the rounds of one-on-one meetings were prefaced by a presentation from an accountant on the practicalities of obtaining financing from venture capital funds. Eight such funds (investment of $5000 to $500 000) and 20 SMEs participated in the gathering.

EXPORT POSSIBILITIES EXPLORED AT SECOND FAIR

The second Investment Fair was co-sponsored by the Groupe d'aide aux industriels maskoutains and the local export development service — the Service d'exportation Richelieu-Yamaska. The rationale for the partnership between these two organizations was that companies in search of equity financing are often also beginning to consider launching or expanding the presence of the product or service in export markets.

The event began with a breakfast round table where SMEs discussed their experiences in seeking venture capital and export financing. The one-on-one meetings for this Investment Fair involved not only representatives of venture capital funds but also government representatives concerned with venture capital or export financing.

PRIVATE INVESTORS DEBUTED AT THIRD FAIR

"Due to the success of previous events, a few SMEs at this fair were renewing contacts in addition to making new ones. In some cases, it took on the atmosphere of a family reunion."

The third Investment Fair brought together representatives of venture capital funds, government agencies and, for the first time, a small number of private investors. Twenty minutes was allotted for the one-on-one meetings, and this time limit was strictly adhered to, with a bell sounding to tell participants when it was time to move to the next meeting.

In a large room, tables were strategically arranged so that the meetings could take place in private.

The agenda for the event is typically 7:30 a.m. to 8:00 a.m. for breakfast, 8:00 a.m. to 8:30 a.m. for a speaker and 9:00 a.m. to 12:00 p.m. for the one-on-one meetings.

ROUNDING UP SME PARTICIPANTS

"Several entrepreneurs were concerned that if they brought in venture capital, they would lose control of their businesses. Some SMEs were also afraid that their business would become unionized if a labour-sponsored venture capital fund were to invest."

Over the course of a year, staff of the Saint-Hyacinthe CCIP visit more than 120 businesses in the region. A preliminary identification of their financing needs is made and the services offered by the CCIP project are explained. Generally, entrepreneurs knew little of the existence of risk capital.

Admission fees for the Investment Fairs are minimal since the cost of putting on these events is modest. Mainly a meeting place must be arranged and a light breakfast provided. The CCIP finds that the time required for the organization of the events is also modest, particularly now that the potential invitees are better known.

THE RESULTS

WE SHOULD DO THIS MORE OFTEN

Solid business relationships and alliances are started at these events. The venture capital fund representatives appreciate the Investment Fairs as much as the entrepreneurs, since they are able to see a large number of investment proposals in a short time. Similarly, entrepreneurs appreciate the exposure to a number of potential investors over the course of a single morning.

"SMEs have stated that they would benefit from the Investment Fairs being held twice yearly. This shows the success of this annual event!"

For companies at an early stage of their development cycle and having a clear potential for becoming candidates for venture capital, participation in the Investment Fairs can fulfil a "training" function. SMEs are exposed to a number of perspectives on venture financing, and begin relationships that will come in handy when they are ready to start looking in earnest for financing.

FACILITATOR BENEFITS AS WELL

The Saint-Hyacinthe CCIP believes it benefits from increased profile in the investment community and among local businesses. In addition, a certain amount of press coverage results from these events. After the last Investment Fair, the CCIP arranged the publishing of an article on the event in a publication distributed to manufacturers in the region.

It is estimated that about 20 percent of the introductions made at the Investment Fairs result in follow-up meetings between SMEs and potential investors. At the last fair, three financing deals are known to have been concluded, and others are still in various stages of negotiation.

LESSONS LEARNED

DON'T PUT THE CART BEFORE THE HORSE

The key to the success of these events is preparing the entrepreneurs and managing their expectations. They must be totally aware of the fact that the purpose of the fair is to make a first contact and arrange a future meeting, not to conclude a deal on the spot.

Entrepreneurs are encouraged to bring their business plan or investment opportunity summary with them to leave with proposed investors.

THE MORE THE MERRIER

The participation of more venture capital funds makes for a better event. And the addition of export financing agencies can work well, since many companies in search of financing may also be starting to export or hoping to increase their export levels.

"Although private investors are invited to participate in the events, very few do. This may be due to the general reluctance among private investors to be publicly identified."

Twenty minutes is a minimum for the one-on-one meetings. The Saint-Hyacinthe CCIP tried a format with shorter meetings of 10 or 15 minutes, but participants mentioned that it did not allow enough time for initial introductions.

STATE-OF-THE-ART INVESTMENTS

Venture capital funds are predisposed to "new economy" companies such as those in the information technology or biotechnology industries. The expectations of venture capital funds are well defined in terms of investment horizon and return on investment.

"Without excluding the importance of an analysis of the entrepreneurial capacities of the management of SMEs, venture capital funds tend to place a great deal of emphasis on the health of the industrial sector in evaluating whether to invest in a project."

Highlights — **Investment Fairs**

- SMEs in need of financing are identified.
- Sources of financing and financing facilitation are identified — venture capital funds, government economic development programs, and private investors.
- SMEs are given list of participating providers of capital.
- One-on-one 20-minute meetings are booked between capital providers and entrepreneurs.
- The time firms have for the meetings is limited.

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Bring Angels in Through the Back Door

Recruiting angels in an indirect way

Where this happened Sarnia-Lambton, Ontario

Sarnia-Lambton's CCIP project is part of a larger community effort to revitalize the local economy. The current economy is based on the refining and chemical industries. Working with other partners from the community, the pilot project's objective is to stimulate the growth of these and other businesses.

The CCIP project, which serves a regional population of 130 000, is encouraging exports, providing resources that support and encourage growth of local industry, developing one-stop shopping for access to funding sources of all types, and establishing mechanisms and sources for alternative funding locally. And to accomplish all this they needed the support of local angels.

Jeff Kinsella, Manager of Business Growth Services for the Sarnia-Lambton CCIP project, originated this technique.

The Challenge

Find and Approach Shy Investors

"In Sarnia, there's a core of fairly mature businesses that do reasonably well supporting the petrochemical industry. What we're trying to do is to diversify away from petrochemicals."

All quotes by Jeff Kinsella

The challenge was to find a way to recruit angels who would invest in specific projects.

There were two parts to this challenge. First, the project members had to identify private investors within the community and encourage them to share their expertise with entrepreneurs.

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Second, they had to overcome the reluctance of these angels to be identified as potential investors and to actually invest in specific projects.

THE SOLUTION

TAKE AN INDIRECT APPROACH

"The best candidates to become angels are people who do or should care about the investment opportunity."

The solution was to take an indirect approach to reach angels. This was done by first exposing them to problems and only then suggesting that they become part of the answer.

Angels are usually involved in the industry in question and could benefit from vertical integration or diversification, or they are no longer in the industry but know all about it and still have connections.

These are the people who have the lowest due diligence costs because they know the industry and have relevant contacts.

THE DIRECT APPROACH CAN BE A TURNOFF

The traditional method that paid intermediaries use to contact potential investors is the **direct approach**. The intermediary calls the angel, explains the opportunity and asks if the person is interested in finding out more.

"A large percentage of angels do not view themselves as investors, but rather as businesspeople who get involved in interesting opportunities. A direct approach makes them feel that they have been singled out as a target, and the investment facilitator loses all credibility."

This may work with active private and institutional investors, because the intermediary works with these people on a formal basis and has developed a relationship of trust that has evolved over time.

The problem with applying this same technique to informal investors is that unless the investment facilitator has a close relationship, the likely response is: "I don't make those kinds of investments." This approach positions the facilitator and the angel as adversaries.

Another problem with the direct approach is that there are only two choices — "Yes" or "No"— and the easiest thing for the potential investor to say is "No."

How the indirect approach works

When working with informal angels, the preferred option is the **indirect approach**. The investment facilitator, the person who is building the bridge between the entrepreneur and an investor, calls the potential investor. But the talk is not about investment at this stage; it is about how the CCIP prepares companies for financing. The request is for help in this task, based on the investor's depth of industry experience.

The facilitator asks a potential angel to provide a service to the community. Sometimes the facilitator explains that they do not have the necessary expertise, and asks the angel to meet with a young entrepreneur just to help him/her get going.

The objective is to get the potential investor to look at an investment summary. The facilitator makes it clear that they are only looking for advice.

"Most importantly, if the investor doesn't like the deal, he or she will explain why, and the investment proposal can then be adjusted before an approach is made to another investor."

With this approach, the investors are singled out for their expertise rather than their wealth. This fits in with their perception of themselves as successful entrepreneurs rather than as wealthy targets.

Getting the private investor to agree to look at the investment summary to offer advice provides exposure to the potential of the investment. If the investor is well chosen, it is highly probable that he or she will like the deal and invest. If not, the investor is likely to make referrals, because he or she has become emotionally involved with the opportunity.

Why stop at one? Develop a list

Brokers and other intermediaries who work with formal investors tend to develop lists of these investors, tracking their preferences and investment histories. With informal angels, this is much more difficult.

These angels are motivated by specific opportunities and don't view their actions as an investment but as participating in an opportunity. They see themselves as "working with an up-and-coming entrepreneur," not "doing a deal." They do not want to be on anyone's list.

The most effective way to identify this type of angel is through networking. Essentially, the network of the staff members and Board of Directors of the CCIP project started with the initial angel list and built it up over time.

Some communities have undertaken a large-scale recruiting drive for investors. This works with formal investors, as they are always looking for high-quality referrals from trusted sources. It can also work with informal angels as long as the facilitation organization keeps the focus on raising awareness and gaining cooperation rather than on "building the list."

TEACHING ANGELS TO FLY

One method that has been used to increase the number of angel investors in a community is to run "how to" classes for new private investors.

A facilitator taking the direct approach would call potential private investors and tell them: "We are running workshops on how to be an angel. Would you be interested in participating?"

"The problem with this tactic is that many informal investors do not know that they are angels and they may be suspicious about why they are on the list."

If they feel that they were chosen simply because they are wealthy, the facilitator and the potential investor are positioned once more as adversaries.

The indirect approach is to contact private investors with the following type of message: "We are bringing together a group of successful businesspeople who have a reputation for giving back to the community to see if we can get some advice on how to overcome problems local businesses have in getting access to capital. We would really like you to be part of this."

This approach is more likely to work because the reason for being chosen aligns with the potential investors' perception of themselves. They feel good about the prospect of giving back to the community and may either bring others along or talk about the concept with their colleagues. Education is being presented as information and is most effectively conveyed in a peer-to-peer rather than a classroom format.

THE RESULTS

A Win-Win Situation

"This approach enables the informal investor to slowly build emotional ownership of the project. And emotional ownership often leads to successful investment."

The result of this approach is often that all parties get what they want. By using the indirect approach, the facilitator has brought the investor onto the team and made it easier to obtain an initial buy-in. This approach has also helped to expand the facilitator's network and reputation.

Experience has demonstrated that with informal investors this approach yields results.

LESSONS LEARNED

One good turn...

A good strategy for building a network of informal angels is to become part of their network. Give something back to potential investors, either by referring business to them or providing them with information that will be useful to them in their business.

Highlights — Backdoor Angels

- An indirect approach to potential angels is planned.
- The request for help is based on the industry experience of angels and their desire to serve the community.
- Angels are provided with an investment summary.
- A list of potential angels is developed through networking.
- Classes for potential investors are considered.
- Business is referred or information is provided to angels in return for their assistance.

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Table Talk Captivates Investors

Fostering a network of potential investors within the community

Where this happened — **Burlington, Ontario**

The Burlington Economic Development Corporation (BEDC) has assumed responsibility for the operations of the local CCIP under the name "Ventures Burlington."

The BEDC services an area consisting of the Region of Hamilton-Wentworth, the Region of Haldimand-Norfolk and the Six Nations Economic Development Commission, as well as the communities of Brantford, Grimsby, Halton, Lincoln, West Lincoln and Burlington. The Hamilton/ Burlington CCIP area of operation is located less than an hour's drive west of downtown Toronto.

This area supports a population of 1.5 million and has an economic base of information technology, manufacturing, steelmaking, auto manufacturing, agriculture, tourism, winemaking, land development and several colleges and universities.

Ventures Burlington focusses on two primary services. The first provides the counselling and preparatory work required to make small businesses ready to attract investment capital. The second assists with the sourcing of venture capital through setting up groups consisting of institutions, structured investment funds and private investors, more commonly known as "angels."

Inviting potential investors to dinner with the mayor is a technique initiated by Dave Smardon, President.

"Ventures Burlington assists businesses through a process we call 'intermediation.' This involves identifying and mentoring growth-oriented businesses seeking access to risk capital, maintaining a database of risk capital sources and introducing companies with potential to sources of risk capital as well as to opportunities for strategic alliances."

All quotes by Dave Smardon

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THE CHALLENGE

Seek and Ye Shall Find

The primary mandate of Ventures Burlington is to assist a target market of SMEs with growth potential to access venture capital through angel investors.

It follows, therefore, that a complementary objective is to build and foster a network of potential angel investors within the community, from whom business advice can be sought and to whom investment proposals can be presented.

THE SOLUTION

Anyone for Dinner?

The Hamilton/Burlington CCIP provides assistance to small companies with annual revenues of $250 000 or more that show growth potential, either high growth or constant growth. Ventures Burlington has learned from experience that the best prospect for these SMEs to find venture financing is through angels, and it has decided that the main thrust of the organization will be fostering the development and maintenance of a solid roster of potential angels.

"These investors have done investments before. They are not just tire kickers."

Venture Burlington maintains a database of 90 angels in the community — experienced investors with an annual income of more than $150 000 and a net worth of more than $1 million.

To encourage these angels to network and to introduce them to investment opportunities with solid-growth SMEs in the community, the Hamilton/Burlington CCIP came up with the idea of a "Mayor's Dinner." The mayor of Burlington periodically invites 5 to 10 angels for a dinner that runs from 7 p.m. to 10 p.m. This is a private event (no media), which fits in well with the personality of the typical angel investor who normally wants to keep a low profile and prefers smaller groups.

Lots of business items on the menu

At the dinners, a broad range of topics pertaining to local economic development are discussed, such as incubators, what angel investors are looking for, the usefulness of angel advisory committees and other issues that will spark the angels' interest.

The dinners are also the focal point of business plans of local SMEs in search of financing. The Hamilton/Burlington CCIP reviews a number of business opportunities and comes up with a few summaries to present at the Mayor's Dinner. Depending on how rich the selection is at any given time, the number of plans distributed to participants in advance of the dinner can range from one to three or four.

"When an investment opportunity is introduced at one of these dinners, it's up to the angels who are interested in pursuing the matter to contact the entrepreneur at a later date. Investment discussions will evolve from these privately arranged meetings if the angel has a continuing interest in the opportunity."

THE RESULTS

Familiarity Breeds Investment

The angels who attend the Mayor's Dinners develop a camaraderie and a commonality of interests, making it more likely that they will collaborate and/or support each other in future investments within the community. Trust begins to build and relationships begin to develop.

The angels who attend the dinners are usually very keen about the concept of supporting high-growth SMEs and helping them to access capital. Many of the angels have expressed their appreciation for the opportunity to speak with their peers in an informal, low-key setting.

Several investment opportunities have been introduced to angels at the dinners, which have led to discussions with entrepreneurs about new financing deals. In this way the dinners have become a win-win situation; the mayor meets with angels, powerful economic players in the community, and the angels meet with the mayor, one of the most influential people in the community, who can guide them toward investment opportunities.

Another positive outcome of the dinners is that the angels involved have almost all expressed interest in assisting the Hamilton/Burlington CCIP program in an advisory capacity.

LESSONS LEARNED

BIRDS OF A FEATHER

"We've been told in no uncertain terms that if we bring deals to the table that are garbage, we won't see the angel again. This puts the onus on the investment facilitators to ensure that the opportunities presented for discussion on any given evening are of a very high quality."

Ventures Burlington has found that the Mayor's Dinner approach works well because angels like to deal with other angels. The key to success seems to be the informal setting. It attracts those investors who do not wish to be identified as angels and may not want to attend more formal events such as venture forums.

One angel was very matter-of-fact concerning the reason for attending one of the Mayor's Dinners — pure greed. Several angels have been very vocal in delivering a clear message: "Don't waste my time!" They stress that they are not in it for job creation or economic development: they are there to make money.

DON'T INVITE THE ENTREPRENEURS

Ventures Burlington has learned that it's a no-no to invite the entrepreneurs to the dinners. Angels prefer to control the process of introductions and do not want to meet the SME at this early stage. If they're interested in the opportunity, they'll make contact later.

IT TAKES TIME TO WARM UP AN ANGEL

"The angels themselves tell us time and again that they want to keep these events small. If the network is built carefully, the angels will meet together off-line, outside of the organized events."

The Hamilton/Burlington CCIP feels strongly that the angel network should grow slowly to ensure that trust and camaraderie are nurtured and maintained.

Since angels beget angels, they should be used to increase the network. Through their business associates, friends and other contacts, angels can identify and attract other private investors who might benefit from attending networking events.

Highlights **Table Talk Captivates Investors**

- The mayor agrees to invite a small group of angels to a private dinner.
- Business plans of SMEs seeking financing are sent to invitees.
- The discussion focusses on local economic development issues.
- No entrepreneurs are invited to dinners.

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"Angels in Waiting" Guide

Recruiting angels through self-assessment of potential investors

Where this happened Mount Pearl, Newfoundland

The Mount Pearl CCIP Inc. is a not-for-profit corporation funded by Industry Canada and the City of Mount Pearl, and primarily serves the Northeast Avalon region of Newfoundland and Labrador. However, entrepreneurs and potential investors from other regions of the province can also benefit from the services provided.

The Mount Pearl CCIP Inc. has established working partnerships with organizations such as the Business Development Bank of Canada, Genesis Centre, Operation Mentor, Capital Coast Development Alliance, Atlantic Canada Opportunities Agency and many other entities with similar objectives of assisting in the economic development of the region.

The guide described here is the result of an idea formulated by the Mount Pearl CCIP Inc. and its Investment Manager, Rob Mallay.

THE CHALLENGE Encouraging Potential Investors

Although the Mount Pearl CCIP Inc. realized there was a surplus of investor capital in the province, many SMEs were finding it difficult to attract funds for start-up or expansion.

One of the reasons for this was that the potential investors themselves weren't as familiar with the basics of venture capital as they could have been, and therefore weren't participating to their full potential.

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THE SOLUTION

INVEST IN OURSELVES

The Mount Pearl CCIP Inc. decided to work at fostering the development of angels by producing a venture capital guide entitled *Invest In Ourselves: Private Business Investment In Newfoundland and Labrador.*

"Many businesspersons in our province successfully manage or own companies but have never invested in another private venture — although they have an interest in doing so. It is for those individuals that the guide is primarily intended; however, those searching for private capital can also benefit, as it can give them a better appreciation of investor key considerations."

All quotes by Rob Mallay

The preamble to the guide gives three reasons for its existence:

- It provides potential investors with information to assist them in determining whether or not private investment is appropriate for them.
- It increases the level of private investment within the province. This is congruent with the belief that information can be a tool for creating an "investment culture." In such an environment, more potential investors would consider opportunities in the province, and those in search of capital would consider private investment a viable choice among their financing options.
- It provides entrepreneurs looking for private investment with an overview of key investor considerations, needs and expectations.

WHAT THE GUIDE CONTAINS

The guide provides information that helps to lead potential investors through self-assessment of their personal situation and their inclination to be a private investor. From there, it addresses the issue of due diligence to ensure that one clearly understands the nature of the investment decision. Finally, it provides some information about the forms that investment can take and cites some legal and taxation considerations.

PRELIMINARY INVESTOR CONSIDERATIONS

The guide cautions that private investment might not be for everyone. It asks a number of questions, then expands on them to ensure that the potential investor has thought through his or her personal goals and objectives. Some of the questions are:

- Do I have the risk profile?
- Does my investment time horizon fit the investment opportunity?

- Do I have sufficient funds to invest?
- What types of investment opportunities should I consider?
- What level of involvement should I expect or want?

Making the Investment Decision

Once the prospective investor is satisfied that this is something he or she wants to do, the next step is to find the proper investment. This involves due diligence, meaning that prior to investing in any venture the investor should conduct a review of the entrepreneur and the investment opportunity.

The guide points out that this is a process of systematically evaluating information to identify risks and issues relating to a proposed transaction, thus verifying that the information is what it is proposed to be.

The relationship formed with the entrepreneur will likely last several years. Accordingly, taking the time to review the investment opportunity is very important. Non-financial information should also be explored. The guide suggests some questions to consider:

- Do you like the entrepreneur?
- Do you trust the entrepreneur?
- Have you examined the entrepreneur's past business dealings?
- Will the entrepreneur be a good manager?
- Does the entrepreneur have a sound business plan?
- Will you be a member of the Board of Directors?
- Will you be a passive investor or will you become involved in the business?

"Besides the chemistry that should be present, the investor should examine very closely the ability of management. The investor should be comfortable and confident in management's ability to turn the opportunity into a profitable one."

Don't Stop There

The guide continues with a section entitled "Valuing an Investment Opportunity," which gives the potential investor tips on items such as book value, liquidation value, rule of thumb multiples and earnings approach. The investor is also advised to determine the rate of return he or she requires to be compensated for the risk associated with the investment.

Forms of investment — common shares, preferred shares, debt and options — as well as legal and tax considerations round out the advice contained in the guide.

How the guide got produced

Mount Pearl CCIP Inc. recognized the need to identify and recruit angels, and looked for ways to do this. It was felt that while there were potential private investors in the community, many of them needed encouragement and guidance in how to actually invest. Thus the decision to produce the guide. Pauline Downer, CA, Faculty of Business, Memorial University of Newfoundland, was contacted and liked the idea so much that she became the prime author.

"We wrote the introduction and background and Professor Downer wrote the remaining 80 percent of the text."

The project was funded by the Mount Pearl CCIP Inc., with a financial contribution from the Atlantic Canada Opportunities Agency.

THE RESULTS

Guide Got Rave Reviews

The press run for the guide was 2500 copies, and these have been distributed throughout the province to potential investors, SMEs, economic development agencies, government departments, etc., with many expressions of gratitude for the comprehensive material it contains.

Partly because of the new awareness of what venture capital is all about on the part of both potential investors and entrepreneurs, the Mount Pearl CCIP Inc. was able to hold three successful investment forums in one year.

"Just recently we heard from Canmore, Alberta, and they asked if they could copy our guide. We said to go for it!"

In addition, other investment facilitation groups across Canada have expressed an interest in producing a similar publication using *Invest In Ourselves* as a template.

LESSONS LEARNED

KEEPING THE GUIDE CURRENT

Having produced an initial print version, Mount Pearl is now concentrating on updating the guide on their Web site. This is a cheaper and more efficient approach now that the guide has been produced and is being referenced in other printed marketing materials.

Another good reason for producing an electronic guide is that there have been recent changes in federal and provincial tax legislation that could have meant an expensive reprint of the hard-copy guide to bring it up to date.

"It was quick and easy to make those changes on the Web site, and other materials will be added as they become available."

The organization obtained the domain name "*Invest In Ourselves*," and has created the Web site (**http://www.InvestInOurselves.nf.ca**), which contains general information about Mount Pearl and the CCIP initiative, a section devoted to investors, another to entrepreneurs, a reproduction in full of the guide, venture capital-related articles and links to Industry Canada's *Strategis* Web site, including the CCIP site and Steps to Growth Capital. The guide can also be accessed directly from the CCIP Web site (**http://ccip.ic.gc.ca**).

Highlights — **"Angels in Waiting" Guide**

- Information is given for potential angels to assess themselves.
- Key investor considerations, needs and expectations are explained.
- Tips are given on evaluating investment opportunities.
- Forms of investment are explained.
- Updates are available on the Internet.

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CAPITAL CONNEXION

DOING MISSIONARY WORK IN CYBERSPACE BY LINKING SMES AND INVESTORS THROUGH THE INTERNET

Where this happened Thérèse-De Blainville, Quebec

The Société de développement économique Thérèse-De Blainville manages the area's CCIP pilot project. The organization has also been successful in enlisting the participation of 66 other local economic development agencies throughout Quebec, in other parts of Canada and in Europe.

The CCIP pilot project has developed, operates and promotes a worldwide Internet local database network. This database is broken down into two parts: firms looking for financing and risk capital investors.

Registration is free and record validation is made by local economic development offices acting as franchises.

THE CHALLENGE

"We have created and adapted to the needs of SMEs and local economic development organizations a new strategic model capable of generating a volume of information, enriched and locally controlled, then disseminated globally according to a common model."

Quotes by Charles Le Borgne, Director General

A MEETING OF THE MINDS (AND WALLETS)

Most communities have at their service a local economic development agency or department. The people who work there are very familiar with the local economy and have a lot of credibility in the business community.

The needs that local companies reveal to these economic development agencies often involve financing. These offices have the knowledge required to assess investment proposals and provide assistance to entrepreneurs.

CAPITAL CONNEXION

DOING MISSIONARY WORK IN CYBERSPACE BY LINKING SMEs AND INVESTORS THROUGH THE INTERNET

Where this happened Thérèse-De Blainville, Quebec

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The needs that local companies reveal to these economic development agencies often involve financing. These offices have the knowledge required to assess investment proposals and provide assistance to entrepreneurs.

These offices traditionally find that two issues require attention:

"This makes it difficult to match the needs of investors and entrepreneurs. Additionally, some communities don't have the volume of investment opportunities and investors to put together a matching database."

- Many companies have problems accessing financing because they lack capital and certain management capabilities.
- A 1995 Quebec study found that there were 2175 angels in the province with $1.3 billion to invest, but that they had a problem finding good deals.

The creation of a local database is a common activity for economic development agencies. However, their territorial boundaries constrain investors and entrepreneurs to deal with a limited number of counterparts.

THE SOLUTION

Head Into Uncharted Territory on the Web

To address these challenges while making use of the capabilities of local economic development agencies, the Thérèse-De Blainville CCIP designed and implemented a bilingual Internet local database network called Capital Connexion (**http://www.capital-connexion.com**).

How the Web site introduces itself

The following text illustrates how potential users are introduced to the Web site:

> To successfully carry out a start-up or expansion phase, a company must have access to funding. Conventional lenders like banks are looking for minimum risk and maximum guarantees. This type of requirement is hard for many companies to meet, especially when their activities are based on knowledge and new technology.
>
> Risk capital can come from two sources: institutional funds and private investors. Sources in the first group are reluctant to become involved alone, thus opening up opportunities for those

in the second group. Angels, or private investors, can provide the desired capital and also the skills necessary to a company's success. However, they are not well known because they are not large enough to be able to promote their capital offer.

Capital Connexion™ was designed to permit better management of the supply and demand of private risk capital to help job-creating companies.

Capital Connexion's mission is to promote economic growth by giving entrepreneurs and investors a database that can meet their need for capital or enable them to search for business projects.

How it happens

Investors and entrepreneurs register with Capital Connexion free of charge, whether they are looking for financing or seeking investment opportunities. The registration forms can be completed on-line.

Entrepreneur registration

In the case of entrepreneurs, the individual in charge of financing for the company is asked to complete a registration form with the following details:

- contact information;
- company activity type;
- economic sector;
- description of activities, products or services;
- current phase of development;
- training and experience of management team;
- competitors (direct or indirect);
- present and future market segments;
- date of incorporation/ registration of company;
- current number of full-time employees;
- sales and earnings (last fiscal year and three-year forecast);
- current assets and liabilities;
- amount of financing sought;
- type of investment expected (capital stock, loan or other);
- portion of voting shares that can be transferred;
- degree of involvement sought from the investor (passive, part-time, active);
- skills required in the investor (e.g. finance, production, marketing, engineering);
- existence of an up-to-date business plan;
- brief description of the project for which financing is being sought; and
- other relevant information.

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Investor registration

The registration form that investors are asked to complete seeks the following input:

- contact information;
- total value of risk capital portfolio currently available;
- minimum/maximum amount available for each investment project;
- regions in which investor is willing to invest;
- business activity type;
- economic sector, fields of activity and types of products in which investor would like to invest;
- desired forms of investment (equity, debt, to be determined);
- if considering capital stock, what percentage investor is looking for;
- desired timing for recovery of the investment;
- desired type of involvement (passive, part-time, active);
- areas of skill;
- willingness to partner with other investors;
- desired stage of development (start-up, recovery, expansion, other); and
- other relevant information.

GATEKEEPER IS A VITAL PART OF THE EQUATION

"These offices act as intermediaries between businesses and local investors as well as possible partners from anywhere."

Vincent Trudel,
Economic Development Officer

"The role of the gatekeeper is crucial in maintaining the confidentiality surrounding the entire information transmission and dissemination process."

Once clients are registered, they are assigned a password that allows them to view limited information on business opportunities or investors. The registration form is then sent to a "gatekeeper" — an economic development organization that has exclusive responsibility for the territory it occupies — for the validation process and for access to the confidential data on entrepreneurs and investors.

Within three working days, the gatekeeper contacts the individual who completed the registration form. The organization is responsible for validating the record in order to control its dissemination in the Capital Connexion databases.

The gatekeeper ensures that valid and credible information is provided by all individuals who register with Capital Connexion, and is responsible for checking the quality of applications. If he/she judges that the business opportunity is not credible, or that the project does not contain enough information to meet the investors' standards, the registration form is not validated.

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GATEKEEPERS AS MENTORS

Gatekeepers can also provide support to the entrepreneur in preparing to meet with potential investors, or to investors in analysing the investment opportunity. The involvement of local economic development agencies in Capital Connexion ensures that rather than being a centralized investment database, it responds to local needs, including services to investors and entrepreneurs.

Once registered, an investor or entrepreneur can identify and select potential partners and access detailed profiles, although these contain no confidential data. An investor or entrepreneur who indicates an interest in a potential partner will receive a call from the appropriate gatekeeper to begin initial discussions about the possibility of a linkage.

TAKING ADVANTAGE OF TECHNOLOGY

When they register, investors and entrepreneurs are asked whether they would like to receive the Capital Connexion virtual newsletter, which is sent out regularly to parties who answer in the affirmative. Investors can also choose to activate a function within the database that will send them an e-mail automatically when an entrepreneur registers with characteristics matching the investor's criteria for "territory," "amount" and "activity type."

Capital Connexion is still seeking gatekeepers for many communities, particularly outside of Quebec. When a registration form is completed by an investor or entrepreneur from a community for which no gatekeeper is in place, the CCIP staff validate the information by phone and assume responsibility for assisting with initial discussions when a potential match is made.

Gatekeepers are provided with a general guide on how to effectively use the Web site and are encouraged to attend periodic conferences that give them an opportunity to brush up on their role. The meetings also give them an opportunity to discuss common challenges with their peers.

EQUITABLE RESOURCE MANAGEMENT

There is no charge to investors or entrepreneurs who sign up. The development costs have been partly covered by CCIP. Maintenance, updating and promotion costs are shared among the local economic development organizations certified as gatekeepers.

These gatekeeping agencies also pay a fee for the use of the service based on the population of the community they represent.

THE RESULTS

WEB SITE GOES INTERNATIONAL

The Capital Connexion Web site was launched in September 1999. As of March 31, 2001, 144 private investors had registered, 234 businesses in search of financing had signed up and $160 million had been offered in available investment. The Web site had received 30 000 hits.

"The economic development organizations that act as gatekeepers gain the benefit of increased profile and a greater chance of making investment matches for local investors and/or entrepreneurs."

In the same time period, 70 gatekeepers registered with Capital Connexion, including community development organizations from Quebec, Alberta, Ontario, New Brunswick, France and Belgium.

LESSONS LEARNED

MISSIONARY WORK CAN BE CHALLENGING

The Thérèse-De Blainville CCIP team has found that it takes a great deal of salesmanship to convince people to get involved in something as new and as innovative as Capital Connexion. The kind of results hoped for at the outset are starting to be realized, but it's a slow process that requires patience and perseverance.

In addition, designing the database and launching the Web site took much longer than anticipated. Once again, when one is pioneering a technique it is difficult to estimate how long it will take, and one doesn't have the luxury of checking out other similar projects.

The poor quality of business plans and financial statements that entrepreneurs present is an obstacle to getting beyond initial introductions after a match is made. There is a real need to put more effort into mentoring entrepreneurs in this area.

The involvement of local economic development organizations as gatekeepers is a key success factor. Investors and entrepreneurs reap the benefits of dealing with someone locally while plugging into opportunities from other geographic regions.

Highlights **Capital Connexion**

- Local, national and international economic development agencies are enlisted.
- The Web site is designed for SMEs seeking financing.
- The database is provided with detailed information from entrepreneurs and investors.
- The information is guarded by assigned password.
- All information is validated by gatekeepers, who pay for use of the service.

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Join the Team...Put The Winning Formula to Work

The work of the CCIP pilot projects in investment facilitation is entering the mainstream of local economic development. Communities across Canada can establish their own investment facilitation services based on the models of the pilot projects, or attach the service to an existing economic development organization.

Communities that are too small to sustain an investment facilitation service can join with neighbouring communities or form regional services.

Economic development professionals, entrepreneurs, angels, financial institutions, accountants — anyone with a role to play in the new investment culture sweeping across Canada — can take advantage of the experience and lessons learned by CCIP projects.

Start on our Web sites

The CCIP Web site (**http://ccip.ic.gc.ca**) contains a wealth of information that has been gathered on the pilot projects and the tools they have used. It will also link you to:

- **Steps to Growth Capital (http://growth.ic.gc.ca)**, which demystifies risk capital. It is a modular self-learning Web site that describes the steps that an entrepreneur must take before accessing risk capital.
- **Contact! (http://strategis.gc.ca/contact)**, which covers starting, owning and advising small businesses.
- **Sources of Financing (http://strategis.gc.ca/sources)**.
- Each of the **CCIP pilot projects**.

KEEP IN TOUCH

If you would like to be kept informed of the latest developments in the establishment of local investment facilitation services, e-mail **secretariat@ic.gc.ca**

CCIP Pilot Projects

- Whitehorse, Y.T.
- Okanagan, B.C.
- Victoria, B.C.
- Canmore, Alta.
- Medicine Hat, Alta.
- Swift Current, Sask.
- Burlington, Ont.
- Kitchener-Waterloo, Ont.
- London, Ont.
- Niagara, Ont.
- North Bay, Ont.
- Sarnia-Lambton, Ont.
- Sault Ste. Marie, Ont.
- Saint-Hyacinthe, Que.
- Shawinigan, Que.
- Sherbrooke, Que.
- Thérèse-De Blainville, Que.
- Wendake, Que.
- Fredericton, N.B.
- Moncton, N.B.
- Halifax, N.S.
- Mount Pearl, Nfld.

What They Say About CCIP

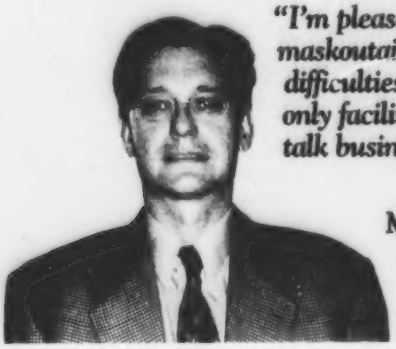
Small Business Entrepreneur

"Mount Pearl CCIP Inc. helped me gain access to private investment that has not only given me the capital I need to grow my business, but also brought along valuable expertise to help me forge new directions for the future. Of course, I wanted to hold on to as much of the business as I could, but I was willing to sell shares. The growth we've realized since that time is far beyond what I could have achieved on my own."

Chris Griffiths
Entrepreneur, Griffiths Guitars International
http://www.garrisonguitars.com

NEWFOUNDLAND

Private Investor and Chair of Board



"I'm pleased to chair the Board of Directors of the Groupe d'aide aux industriels maskoutains (Saint-Hyacinthe CCIP). As a private investor, I know only too well the difficulties and the dynamics between investors and entrepreneurs. The CCIP not only facilitates these matches, but also ensures that the parties are fully prepared to talk business with each other."

Marcel Laurence
Private investor

QUEBEC

Academia/Entrepreneur

"I took Maury Parsons' MBA Program at the University of Calgary. It's largely based on CCIP's Steps to Growth Capital training program. As a result, I have been able to start and find funding for several companies. I am a firm believer in what CCIP has to offer; community investment facilitation is an essential economic development service."

Jackie Rafter
Entrepreneur/investor

ALBERTA